FEASIBILITY STUDY

of

Proposed Conference Center Facility/Mixed Use Project
at
Civic Center Site

Troy, Michigan

Prepared for

Mr. Doug Smith
Real Estate and Development Director
City of Troy
500 West Big Beaver
Troy, MI 48084

By

HOSPITALITY ADVISORS CONSULTING GROUP
411 Huron View Boulevard, Suite 104
Ann Arbor, Michigan 48103
(737) 741-8686

February 14, 2002

Mr. Doug Smith
Real Estate and Development Director
City of Troy
500 West Big Beaver Road
Troy, MI 48084

Dear Mr. Smith:

Pursuant to our discussions we have investigated the feasibility of a proposed conference center facility and ancillary developments on Big Beaver Road, in Troy, Michigan. Accordingly, we have performed market research involving demand generators, civic leaders, corporations, and area hotels to determine the demand for the proposed conference center facility and ancillary developments.

In this report, we briefly describe an overview of the Troy area in economic and demographic terms, an overview of the area's hotel market, other future additions to the competitive supply, and the probable market position of the proposed facility and ancillary developments.

The objective of the following study is to provide both a validation of the findings and conclusions presented in the Johnson study and to add refinements with respect to the scope and sizing of the center's facilities, its ability to sustain itself economically, its hotel needs, and the viability of ancillary developments considered for the site

We appreciate the opportunity of working with you on this project.

Very truly yours,

HOSPITALITY ADVISORS

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I. INTRODUCTION

The City of Troy has experienced rapid growth over the last two decades. In response to this growth city leaders have expressed the desire to create a civic center utilizing land available near the intersection of I-75 and Big Beaver Road and proximate to the current City Hall and the former Troy High School, which has been redeveloped into a community center.

As a means to this objective, the City participated in a regional conference center needs analysis study that was performed by C.H. Johnson Consulting, Inc. (hereafter referred to as the Johnson Study). This study concluded that Troy would be an excellent location for a conference center with exhibition space and recommended a facility space program. Estimates of the recommended center's utilization were developed and financial projections prepared, along with a quantification of the economic and fiscal impact that the project would have on both the area and the state.

PURPOSE AND OBJECTIVE OF OUR STUDY

The objective of the following study is to provide both a validation of the findings and conclusions presented in the Johnson study and to add refinements with respect to the scope and sizing of the center's facilities, its ability to sustain itself economically, its hotel needs, and the viability of ancillary developments considered for the site.

To accomplish this objective, the scope of our work included the following:

- A thorough review of the Johnson study, its methodology, findings and conclusions;
- An analysis of the attributes of the Troy area that are important in supporting group activities;
- Interviews with executives knowledgeable about the state convention and association business;
- Interviews with representatives of state associations, large area employers and other potential users of the conference center;
- An analysis of the area hotel market, including evaluation of the present supply of hotel rooms and estimated future lodging demand; and,
- Analysis of the economic potential for several ancillary land uses including a performing arts theater, retail and housing developments

The conclusions and recommendations contained in this study have been developed from the information gained from the primary research described above, along with our knowledge and experience with hotels, convention centers and general real estate issues.

II. EXECUTIVE SUMMARY

REVIEW OF THE JOHNSON STUDY

Johnson Consulting determined that Troy offers the best location within the Detroit Metropolitan area for the development of a successful meetings facility. This conclusion was based on the strength of Troy's business activity, its highway accessibility, central location, hotel supply and entertainment alternatives. They recommended that a hybrid conference center be constructed containing 120,000 square feet of prime function space, with the ability to eventually double in size. The facility will contain the high quality meeting rooms found in a conference center, along with open exhibition spaces found in a convention center. The recommended facility was estimated to host 312 events by its fifth year of operation that would be attended by a total of 240,000 attendees annually.

MARKET ANALYSIS

Troy and the surrounding area were found to possess all of the factors that contribute to a successful meetings facility. The area supports over 6,000 hotel rooms in a variety of both full service and limited service hotels. Troy is easily accessible via highway and is no more than an hour from the metropolitan area's various business concentrations and its three airports. Troy's distance from Wayne County Airport is its only somewhat negative factor, and this would affect its ability to attract some regional groups. Troy and the immediate surrounding area boasts excellent shopping, restaurants and other entertainment options for meeting attendees.

The main users of the proposed facility will be area corporations for large meetings and tradeshows; state conventions and associations; and local organizations for banquets and special events. With the exception of Cobo Center, there is a lack of large meeting spaces in the Greater Detroit area. We concur with the results of the Johnson Study that the proposed conference center is market justified. We feel that the center will attract more convention business than originally projected, which will increase the level of spending in the community, but any resulting increase in economic is offset by our belief that the facility's total attendance projections may be slightly overstated. This facility will bring new meetings business and associated lodging demand to the community and should have limited competitive impact on the area's group-oriented hotels, as the center will target large groups that cannot fit into hotel ballrooms.

We concur with the recommended 120,000 square feet of prime meeting space, but suggest that a larger ballroom be considered, particularly if a later expansion of the facility is not contemplated. As demand for meeting space continues grow, the conference center can become more selective in its bookings and improve its profitability, as an alternative to expanding the facility in an attempt to capture all the groups that may be available.

HOTEL NEEDS ANALYSIS

The area hotel demand historically has been somewhat cyclical, with recent market wide occupancies running as high as 79 %. Due to the large proportion of commercial lodging demand, area hotels frequently operate near capacity on weekdays and may be half full on weekends. This potential weekday capacity constraint is important in determining the ability of the existing hotel supply to accommodate the nearly 113,000 new roomnights that the conference center is expected to generate.

Our analysis projects that this new lodging demand, combined with the expected growth of the existing demand base, will produce the need for up to another 600 hotel rooms in the market area by 2007. Ideally, between 500 and 800 hotel rooms should be available in the immediate area of the conference center, including a 500-room headquarters hotel. An expansion of the existing Marriott and construction of a second smaller hotel would meet the parameters for hotel support.

PERFORMING ARTS CENTER

The performing arts center, due to its small size, will be oriented towards local and community users, as well as occasional conference center groups. These groups typically do not have the financial capability to pay market rent for a practice and performance venue. Therefore, the facility will have to be publicly funded, but with the added usage by conference center groups, it could be expected to be able to meet its operating costs.

The conference center management should probably supervise the performing arts center. This will minimize overhead costs and help to control scheduling conflicts. Events that require extensive daytime rehearsals or elaborate sets could severely limit the facility's use by conference groups.

OTHER LAND USES

The opportunity exists to provide additional support to the project by encouraging the development of housing and retail at the site. While high density housing would not directly support operations at the conference center, it would bring more potential customers for area restaurants and retail, and would generate significant real estate tax revenue. Retail at the site would have to be primarily supported by the conference center patrons, the area's daytime population, and hotel guests. Given these parameters, the potential for significant retail development is limited. However, restaurant and convenience retail may be feasible.

ECONOMIC FEASIBILITY ANALYSIS

Communities have recognized the huge economic impact they receive from the expenditures of patrons attracted by convention and exhibition facilities. Therefore they are willing to fund the construction of these facilities and, in many cases, subsidize their annual operations. The City of Troy realizes that it will have to fund the construction of the proposed conference center, but it does not want to be responsible for operating shortfalls that may occur at the facility.

Financial projections prepared by Johnson Consulting indicate the need for a total of $4,148,000 in operating subsidy for the center over its first five years of operation, with a continuing subsidy of approximately $600,000 expected. The city has an opportunity to reduce the public cost of the project and/or reduce the required operating subsidy through negotiations with an adjacent hotel(s). The city has the opportunity to obtain capital for the project by selling a hotel site and/or by possibly attaching a capital investment requirement to negotiations of the conference center management contract. Alternatively, the city may be able to reduce the amount of operating subsidy by leasing a hotel site and/or the conference center facilities to a private entity. Maximum operating efficiencies could be realized if the adjacent Marriott or another proximate large hotel were to manage the center, possibly allowing the city to negotiate a lower management fee.

ECONOMIC AND FISCAL IMPACT ANALYSIS

Public assembly facilities are constructed so that communities can reap the benefit from the purchasing power that patrons bring into a community and also the jobs that are created by both the facility operations and the commerce associated with patron expenditures. The conference center as proposed is estimated to cost approximately $72.6 million to construct. Its on-going operations are estimated to create 24 jobs and the spending by delegates and the center's operations is projected to support 2,847 jobs throughout the state. The total recurring economic impact from the center is projected to be in excess of $160 million. These numbers are in addition to the number of one-time jobs and considerable economic impact created by the construction activity itself. State and local tax revenue collected as a result of the project are estimated to be nearly $5.4 million annually.

In addition to economic benefits, the project will create some enormous intangible benefits. The center will draw people to the Metropolitan Detroit area, providing an opportunity for the re-discovery of the community's many positive attributes; it will provide an impressive facility for use by area employers, community groups and residents; it will provide opportunities for new education and entertainment experiences; and it will expose Troy to a large number of people.

III. REVIEW OF C. H. JOHNSON CONSULTING STUDY

The Detroit Metro Convention and Visitors Bureau engaged C.H. Johnson Consulting, Inc. to analyze the potential for expansion of convention and conference facilities in the Detroit area. The purpose of the study was to identify a strategy that will optimize the market potential and economic impact of the meetings industry on the region. In this assignment, the C.H. Johnson Consulting, Inc. in association with Conventional Wisdom Corp., evaluated Metropolitan Detroit Area's current position in the national, state and regional meetings market, assessed the ability of the metropolitan area to penetrate the convention, tradeshow and general tourism markets, and developed a recommendation for the regional facility strategy.

The report entitled *Metropolitan Detroit Regional Convention Facility Strategy Study* was issued in March 2001. We have utilized the findings and recommendations contained in this study as the foundation for our analysis of the proposed conference center project and assessment of its economic feasibility. The methodology and key findings of this report are summarized below.

METHODOLOGY

The methodology used in performing this study involved gathering information with respect to area meeting facilities, utilization data and area economic and demographic characteristics. A set of peer metropolitan areas were selected and the Detroit Area's strengths and weaknesses were examined relative to these markets. The cities selected for comparison were:

Chicago	St. Louis
Boston	Baltimore
Philadelphia	Pittsburgh
Washington D.C.	Cleveland
Houston	Cincinnati
Atlanta	Kansas City
Dallas	Indianapolis
Minneapolis	Milwaukee

The peer cities were compared to Detroit on such factors as amount of exhibition and meeting space, hotel room supply, travel costs, air service, CVB budget, and market share of events and attendance. This analysis formed the basis for the study's conclusions and recommendations.

As part of this study two emerging suburban areas were analyzed and their potential for meeting facility development assessed. The Romulus/Wayne County Airport area and the Troy/Automation Alley area were the two areas that were studied, in addition to Detroit.

SUMMARY OF FINDINGS

The consultant concluded that the Detroit Metro Area is capturing a smaller share of meeting business than would be expected, given the size of its infrastructure and economic capacity. More specifically the report states in its executive summary:

> *"The analysis of the Detroit Metro Area's current position in the market for events reveals that the region is at a competitive disadvantage relative to its peers in several respects. Overall, it has less total exhibition space to serve the market than its population and economy suggests. Also the region suffers from a mismatch of resources. Detroit has a significant lack of downtown hotel rooms paired with a large convention facility and concurrently, a lack of suburban convention and meeting space paired with a solid level of full-service suburban hotels. In addition, certain event planners throughout the country perceive downtown Detroit as a generally undesirable place to meet.*
>
> *Despite these challenges, the potential exists to significantly increase the overall level of event activity in the market*."

The study goes on the mention the positive impact that the two new stadiums, the three casinos and other related developments should have in improving the downtown's attractiveness. It also mentions the growing corporate base that continues to grow in the suburbs as a factor in increasing meeting and convention activity.

One of the study's key findings is that the development of one or possibly two suburban convention facilities is the most important step the community can take to recapture its fair share of meetings business. The study concludes:

> "*It is clear that the best way for the Detroit Metro Area to enhance its meeting market penetration potential is by exploiting its suburban marketplace and then slowly rebuilding business downtown.*"

TROY POTENTIAL

The suburban analysis included evaluation of such factors as hotels, population, income, employment and transportation. Troy and the surrounding Automation Alley (including the communities of Auburn Hills, Birmingham, Bloomfield Hills, Madison Heights, Rochester Hills, Royal Oak, and Pontiac) were evaluated with respect to these attributes. Troy was found to be a particularly good location because of the following:

- A large number of corporate headquarters,
- Proximity to I-75,
- Accessibility to both downtown Detroit and commercial centers in Oakland County, and
- The Somerset Collection mall's regional destination appeal.

The study concludes that the Troy area offers the best location for the development of a successful meetings facility. Specific conclusions contained in the study include:

- *"The Troy location has a significant advantage in terms of population, income and business depth."*

- *"The Automation Alley area benefits from being in the center of a highly vibrant cluster of business development and income."*

- *"While the Troy area has a relatively large ratio of full service hotel rooms, a headquarters hotel is likely to be required to provide a sufficiently large room block to support a new meetings center."*

- *"The Troy site is easily accessible to the region's interstate system, however, it faces some difficult traffic-related challenges regarding Big Beaver Road."*

- *"While the Troy site is distant from the area's main commercial airport, the majority of the functions held at the recommended facility won't attract out-of-town attendees."*

TROY FACILITIES RECOMMENDATIONS

The study concludes that Troy is the best location for a suburban convention center in the Detroit area and recommends that a high quality convention/conference center be developed with a design that allows for later expansion. The study's facility recommendations are presented below.

<u>Recommended Facilities</u>

The study suggests that the conference center be developed in two or three phases, in order to maintain an economic level of utilization and to keep up with the growing assembly needs of the area. The first phase is recommended to contain 120,000 square feet of direct meeting space with the following space program:

Proposed Convention Center Development Program	
Project Component	Total Square Feet
Exhibit Hall	80,000
Meeting/Banquet Space	40,000
Public Lobbies, Concourses & Registration	46,800
Support Areas	13,200
Service Areas	58,800
Food Service Areas	8,400
Administration	3,600
Total Enclosed Building Area	250,800
Dock Area to Edge	19,200
Curb Drop-Off	4,800
Total Gross Program Area	274,800
Source: Conventional Wisdom Corp.	

The exhibition hall should be divisible into three rooms to allow for maximum flexibility in accommodating a large group or several smaller events simultaneously. The meeting space is recommended to include a ballroom of 25,000 square feet, also divisible into three rooms, as well as 15,000 square feet of meeting and breakout space. A ballroom of this size could accommodate approximately 300 people with theater seating and 2000 people for a banquet.

The study suggests that the site be planned to allow for one or two expansions that would eventually double the amount of exhibition space, with proportional expansion of the ballroom and the other spaces. This would result in a facility with 240,000 square feet of prime meeting space.

The total project cost for the first phase facility described above is estimated to be approximately $72.6 million.

CONVENTION CENTER vs. CONFERENCE CENTER

The facility that is being recommended is somewhat of a hybrid among assembly facilities. A conference center typically contains very high quality meeting spaces with technical amenities, comfortable chairs and dedicated meeting rooms for both large and small groups. Food service is provided in a restaurant or buffet setting.

In contrast, a convention center typically contains larger open spaces, suitable for exhibitions, large gatherings and banquets. The level of finish is usually lower and the spaces larger than a conference center.

Conference and convention centers typically appeal to different markets. The recommended facility, however, seems to appeal to both markets and should capture a broad range of the business that is available to it. The recommended facility will have high quality meeting rooms to meet the corporate needs and will also have exhibition space to accommodate consumer shows. It will feature a large, divisible ballroom to host large banquets and meetings. This variety of facilities will allow the center to attract a broader range of users than either type of pure facility could, and will also create higher utilization on weekends than is typically experienced by a corporately oriented conference center.

UTILIZATION PROJECTIONS

The study developed projections of likely utilization for the facility, based on their analysis of the market area and the utilization of meeting facilities located in comparable communities. The study identified the following users for the proposed facility:

- Corporate events are likely to be the largest source of demand, to include local, regional and national conventions, tradeshows, conferences, production meetings, shareholder meetings, incentive meetings and training events;

- State and regional associations;

- Smaller national association conventions and meetings, especially those with some connection to the Detroit area;

- Local events and consumer shows; and

- Special events such as receptions, banquets, other social functions and civic events.

A summary of the projected number of events by type of use for the first five years of the facility's operation is shown in the table below.

	Projected Demand				
	Year 1	Year 2	Year 3	Year 4	Year 5
Exhibit Hall Events					
Conventions	13	16	17	19	20
Trade Shows	18	22	24	27	28
Consumer Shows	12	10	11	13	14
Special Events	10	10	10	10	10
Sub-total Exhibit Hall	53	58	62	69	72
Conventions & Meetings	100	115	120	125	130
Banquets	98	100	102	107	110
Total Events	251	273	284	301	312
Exhibit Hall Occupancy	39%	43%	48%	54%	58%

Source: Johnson Consulting

By the fifth (stabilized) year of operation, the conference center is projected to generate approximately 240,000 total attendees. Projected attendance is summarized in the table below.

Projected Attendance

	Year 1	Year 2	Year 3	Year 4	Year 5
Exhibition Hall Events					
Conventions/Tradeshows	51,600	63,600	69,800	78,400	83,300
Consumer Shows	68,800	57,100	64,100	75,100	79,800
Special Events	27,000	27,000	27,000	27,000	27,000
Total Exhibit Hall Events	147,400	147,700	160,900	180,500	190,100
Conferences	13,000	14,950	15,600	16,250	16,900
Local Meetings & Banquets	29,400	30,000	30,600	32,100	33,000
Total Events	189,800	192,650	207,100	228,850	240,000

Source: Johnson Consulting

SUMMARY

Johnson Consulting determined that Troy offers the best location within the Detroit Metropolitan area for the development of a successful meetings facility. This conclusion was based on the strength of Troy's business activity, its highway accessibility, central location, hotel supply and entertainment alternatives. They recommended that a hybrid conference center be constructed containing 120,000 square feet of prime function space, with the ability to eventually double in size. The facility will be a contain the high quality meeting rooms found in a conference center, along with open exhibition spaces found in a convention center. The recommended facility was estimated to host 312 events by its fifth year of operation that would be attended by a total of 240,000 attendees annually.

IV. MARKET ANALYSIS

In order to evaluate the reasonableness of the conclusions presented in the Johnson study, we performed our own analysis of the Troy area with respect to the factors that affect its ability to attract meetings activity.

TROY AREA ATTRIBUTES

There are many community factors that contribute to a successful meeting facility.

1. There must be enough conveniently located hotel rooms to accommodate the attendees.

2. The facility needs to be readily accessible via good highways for local and state groups and proximate to a major airport for regional and national groups.

3. The successful community is able to offer restaurant and entertainment alternatives to attendees. Attendance is typically higher for events that are held in communities that have a reputation for good restaurants, shopping and other attractions that can entertain spouses during the day and attendees at night. The extent to which Troy has these relevant attributes is examined in our study and provides a perspective for evaluating the utilization estimates for the proposed conference center.

Hotel Supply

The City of Troy and its immediate surrounding area enjoy a strong commercial base that is able to support a large and diverse hotel business. Hotel rooms are needed to accommodate conferences, but hotels typically cannot exist on conference demand alone. Therefore, it is important to have a large core of hotels that can attract much of their necessary demand from area business and leisure activity, yet provide the capacity to accommodate group business when a large function is in town.

Interviews with area hotel operators reveal that the I-75 corridor between its intersection with I-696 north to Auburn Hills, known as Automation Alley, is the relevant competitive hotel market for the Troy area. This market includes the communities of Royal Oak, Madison Heights, Clawson, Birmingham, Troy, Pontiac, and Auburn Hills. Hotels within this area compete for area commercial and group demand, and seek to attract lodging demand from the same major employers. I-75 provides easy access to hotels within this area, so that they could provide overflow capacity, if needed, for large groups holding functions at the proposed conference center.

MAP OF PROPOSED SUBJECT AREA

Within this defined market area are 48 hotels with a total of 6,361 rooms. This supply of hotels contains a variety of product types and price points, providing the area's consumers with a broad range of lodging alternatives.

Approximately 52% or 3,326 of the total rooms available in the market are located in full service hotels, defined as hotels that provide on-site restaurant and meeting facilities. Average room rates achieved by these hotels range from $80 to $150. Room rates at these hotels are typically higher than other lodging alternatives in order to support the higher cost of capital and operations associated with the amenities.

Approximately 48% or 3,035 of the total rooms available in the market are located in limited service hotels, defined as hotels that have either very limited or no restaurant facilities and meeting space that is limited to smaller conference rooms. Average room rates achieved by these hotels range from $30 to $90 and, because of the lack of amenities, rates at these hotels are typically lower than the full service lodging alternatives.

Our review of the Troy area hotels found that it has a broad base of hotels that can provide some of the additional lodging capacity needed to support large group functions in the community.

Transportation/Accessibility

Accessibility is an important factor in the success of a conference center. Attendees typically want to minimize transportation time, so that conveniently located facilities are favored by meeting planners over more isolated venues. Highway accessibility is most important for area groups, consumer shows and special events, as the majority of attendees to these functions originate from the immediate area and typically travel by automobile. Airport accessibility is more important for regional and state conventions and for national trade shows, as their attendees are more likely to fly to the community and then take local transportation to the function.

The ***Detroit Metropolitan Airport*** serviced approximately 17.7 million enplanements in 2000. Passenger traffic at the airport has increased each year since 1992. The following table details historic passenger enplanements.

Historical Passenger Volume at Detroit Metropolitan Airport

Year	Number of Enplanements (1)	Percent Increase (Decrease)
1989	10.5	
1990	10.6	1.0 %
1991	10.2	(3.8)%
1992	11.0	7.8 %
1993	11.7	6.4%
1994	13.0	11.1%
1995	13.9	6.9%
1996	14.7	5.8%
1997	15.4	6.1%
1998	15.7 (2)	2.0%
1999	17.0	8.3%
2000	17.7	4.1%
Annual Compounded Growth Rate 1989 to 2000	4.9%	

(1) In millions
(2) Figure is affected by a Northwest Airlines strike during July, 1998
Source: Detroit Metropolitan Airport Authority

In 1999, Wayne County's Detroit Metropolitan Airport (DTW) was ranked as the world's 5th busiest airport in terms of operations (landings and takeoffs), and 14th in the world in terms of passengers. Almost 1,500 landings and takeoffs occur daily.

As part of a $2 billion expansion program at DTW, a new $1.2 billion terminal with 97-gates and an 11,000 space parking deck recently opened. Other construction projects call for the completion of a south access road; the fourth parallel runway; and extensive modifications to existing terminals.

The ***Detroit City Airport*** is a commuter airport located approximately 20 miles from Troy, in the eastern part of the city of Detroit. This airport has two runways, and a 53,000-square foot passenger terminal that includes restaurants, concessions and car rental facilities.

The ***Oakland County International Airport***, situated approximately 20 miles west of Troy, is the second busiest airport in Michigan and the fifth busiest corporate airport in the nation. According to Oakland County International Airport, 200 of the *Fortune 500* companies are located there and most of them use this airport. In 2000, nearly 308,000 takeoffs/landings occurred at the airport. It is open 24-hours per day and has restaurant, banquet, and car rental facilities.

Bishop International Airport in Flint is located approximately 50 miles north of Troy. This airport is increasingly becoming an alternative to the Detroit Metropolitan Airport for residents of the northern Detroit suburbs. Nearly 300,000 enplaned passengers were serviced by Bishop International Airport in 2000.

MAP OF SOUTHEAST MICHIGAN

The greater Detroit area has an excellent highway and beltway system that allows for travel throughout the metropolitan area via limited access, divided highways. I-75 and I-696 provide excellent accessibility to the Troy area for functions with area attendance, such as citywide groups, consumer shows and special events. The location of the site at an exit on I-75 enhances the center's convenience.

Examples of average drivetimes (other than rush hour) from area communities are listed below.

Community	Estimated Drivetime
Pontiac	15 Minutes
Grosse Pointe	45 Minutes
Downtown Detroit	30 Minutes
Windsor	45 Minutes
Dearborn	35 Minutes
Ann Arbor	60 Minutes
Southfield	20 Minutes
Detroit Metropolitan Airport	60 Minutes
Bishop Airport	50 Minutes
Oakland Airport	20 Minutes

The Interstate system and proximity of Troy's north suburban location to the population centers of Flint and Lansing provide it with excellent accessibility for state groups.

The site is located approximately 45 miles from the Detroit Metropolitan Airport, with an average drive time of approximately 50 to 60 minutes. This distance, while acceptable, is not particularly convenient for regional groups that are likely to have a large number of attendees traveling by airplane. Also, ground transportation to Troy is not as established as it is to downtown Detroit. Therefore, the proposed center may find itself at a competitive disadvantage for regional groups.

As the northern suburbs continue their growth towards Flint, the Bishop Airport located on the south side of Flint is increasingly becoming a substitute for the more distant Wayne County Airport.

The demand projected for the center in the Johnson Study is weighted more towards area functions, with only 15% of the total events at the center and 35% of the total attendance being conventions and tradeshows, functions that might have a large number of attendees traveling by airplane. These projections are summarized in the following table.

Projected Demand Year 5		
Events	Number of Events	Attendance
Conventions	20	24,400
Trade shows	28	58,900
Consumer shows	14	79,800
Special events	10	27,000
Conferences	130	16,900
Banquets	110	33,000
	310	240,000

Source: Johnson Consulting

The location of the proposed center, from an accessibility standpoint, is excellent for attendees originating from the metropolitan area as well as much of outstate Michigan, who travels by automobile. These characteristics are consistent with the types of groups projected to utilize the conference center facility.

Demographics

Troy enjoys the reputation of being a prosperous community and this image enhances the desirability of hosting events at the conference center.

The population of Oakland County is expected to remain stable over the next ten years and continued growth of the Detroit area's northern suburbs is projected.

Troy has one of the highest median household incomes among the area's communities. In 2000, Troy's median household income was 13.6 percent higher than Oakland County and 48.8 percent higher than the metropolitan area.

While fear of crime in downtown Detroit is a frequently voiced concern among event planners, Troy has an exceptionally low crime rate. In fact, Troy was recently ranked as the 10th safest city nationally, among cities of its size.

Entertainment Alternatives

The existence of entertainment alternatives near a meeting facility increases the desirability of a meeting location. Shopping centers, restaurants, museums, markets, etc., provide entertainment for spouses and evening destinations for attendees. People attending consumer shows and special events may also plan their visit to include entertainment before they return home.

A number of entertainment alternatives exist in the immediate area of the proposed conference center. A brief description of the options available and a map are presented in the following.

Shopping

Somerset Collection and Somerset North – Located within approximately one mile of the proposed subject property, this mall houses over 180 stores, including Neiman Marcus, Saks Fifth Avenue, Nordstrom, Marshall Field's, and upscale full-service restaurants such as P.F. Chang's, Portabella, J. Alexander's, McCormick & Schmick's, and Capital Grille. Neiman Marcus, Saks Fifth Avenue, Nordstrom, and over 60 percent of the specialty shops in this shopping area are the only store of that chain in the state of Michigan. The majority of these stores and restaurants has unprecedented market penetration and are among the top performers in the various chains. The 1,450,000-square foot shopping mall is completely occupied.

Oakland Mall - This popular mall is located approximately 3 miles from the subject site in Troy. Its 130 stores include JC Penney, Hudson's, and Sears and many other specialty shops. Recent renovations have included an additional multi-level wing.

Downtown Birmingham - Located approximately two miles from the proposed subject property, this village has an impressive collection of upscale boutiques and restaurants, along with two theatre complexes showing the latest movie releases.

Great Lakes Crossing - This enclosed regional shopping/entertainment mall is located in Auburn Hills, approximately 10 mile north of the proposed subject property. This vale-oriented mall has 1,385,000 square feet of gross leasable space, a 1,000-seat food court, 25-screen Star Theatre cinema megaplex and the only Rainforest Café in the State of Michigan. The center boasts various regional and nationally recognized department store and specialty outlets.

Downtown Royal Oak – This still-intact downtown area boasts a collection of trendy shops and restaurants and an active nightlife. This area is located approximately 9 miles from the proposed subject property.

Theater/Concert Halls

Palace in Auburn Hills is a large 20,000-seat assembly facility where the Detroit Pistons of the National Basketball Association play their home games. Concerts and family shows are also held at this venue. It is located approximately ten miles north of Troy.

Macomb Center for the Performing Arts is a 1,271-seat theater that features a diverse offering of 90 to 100 events annually, including Broadway musicals, jazz, classical and dance programs. The center is located approximately 15 miles west of the subject site.

DTE Energy Music Theater is a popular outdoor theater that has a capacity of 15,000. It hosts approximately 80 events per year and it has one of the largest annual attendances in the nation. This facility is accessible via I-75 and is located approximately 15 miles north of the subject site.

Freedom Hill Amphitheater is located approximately 10 miles from the subject site and has recently begun to host festivals, events, and concerts including nationally recognized artists and musicians.

Meadowbrook Music Festival and Theatre- Oakland University hosts 30 to 40 events per year in its 586-seat theater, including the Detroit Symphony Orchestra. Meadowbrook's other events include music, art, food, and wine festivals in its outdoor park. The Meadowbrook venues are located approximately 10 miles north of the subject site in the Auburn Hills/Rochester Hills market area.

Casinos- Three popular casinos are located in the downtown and operate 24 hours a day. **MGM Grand Casino Detroit** has one of the largest selections of slot machines in the Midwest with over 2,400 and offers over 80 table games. The **Motor City Casino** features live bands and five restaurants to supplement its large number of gaming devices. The **Greektown Casino**, located in the Greektown area of downtown Detroit, also offers a full array of amenities.

Downtown Stadiums/Arenas- Three professional sports teams will soon play in facilities located in downtown Detroit, approximately 20 miles from the subject site. **Comerica Park**, which is home for the **Detroit Tigers** of Major League Baseball, is a new 40,000-seat stadium that is also used for concerts and festivals. In the same vicinity is **Ford Field**, a $220 million domed stadium expected to open by 2002. It will house the National Football League's **Detroit Lions** and will also host various sporting events, concerts, and shows. Also located in the downtown is **Joe Louis Arena**, which seats over 20,000 and is home to the **Detroit Red Wings**. It too hosts various entertainment events.

<u>Restaurants</u>

Beyond the aforementioned upscale restaurants included in the **Somerset Collection** and **Somerset North**, the market area has at least 15 restaurants in the area that offer a broad variety of mid-scale and upscale dining. This does not encompass the entire market area nor all of the restaurants in the area but does give a representation of the ancillary amenities that are conveniently available to people attending functions at the conference center.

MEETINGS MARKET CHARACTERISTICS

It is important that the conference center contain the facilities and amenities that are desired by the markets available to it. First and foremost, the facility and its amenities must meet the needs of the targeted groups. That is, it must be large enough to accommodate the groups and flexible enough to meet their exhibition, assembly and banquet needs.

The Johnson study found that corporate events are expected to be the largest source of demand for the proposed center. The center is also expected to appeal to state conventions and associations, as well as to smaller regional associations. Vacancies in the schedule are expected to be filled with local events such as consumer shows and special events.

While extensive basic research into these various market components is beyond the scope of this study, we have interviewed a number of potential users and people knowledgeable in the Michigan meetings market to gain insights with which to evaluate the reasonableness of the utilization projections contained in the Johnson study.

Corporate Events

The corporate demand segment includes conferences, trade shows, shareholder meetings, incentive meetings and training events. The area has a strong manufacturing employment base along with a concentration of high technology companies. Within Automation Alley is over one million square feet of Class A office space, occupied by companies such as EDS, Ameritech, and General Motors. There a number of corporate headquarters located in this area, including DaimlerChrysler, K-Mart, Delphi Automotive Systems, Lear, Kelly Services, Arvin Mentor, and Standard Federal Bank. These corporate organizations need assembly facilities for training, sales, motivation sessions and stockholder meetings. They usually seek out high quality facilities and are not price sensitive if the facilities meet their needs.

Delphi and several of the other large companies in the area have their own in-house conference facilities that they use for meetings and training. While these facilities are convenient, both leaders and participants acknowledge that meetings held in outside facilities are usually more productive. The frequent intrusion of telephone calls and minor office crises that plague in-house meetings interrupt the learning process and reduce productivity. Therefore, companies with internal conference facilities would still be expected to utilize the proposed conference center.

The utilization projections prepared by Johnson Consulting indicated that all of the conference and meeting business at the center will require less than 20,000 square feet, as will 21% of the trade shows. Our research and experience indicates that the center will likely attract a number of larger corporate meeting events, events that otherwise could not be accommodated in the market area.

We interviewed representatives of seven area companies to determine where they hold their larger functions now, and to find out if they would be likely to use the proposed facility if it was available. In general, we found that several area hotels were able to accommodate group functions with attendance of 700 to 1,000 people. Only Cobo Hall, the Renaissance Marriott and the Dearborn Hyatt are capable of accommodating groups requiring 20,000 or more square feet of space. For larger groups, companies currently seek out convention facilities or large hotels in major cities outside of Michigan.

The majority of these events could be accommodated in the proposed conference center. Three of the companies interviewed for this study indicated they have a total of ten meetings annually that are too big for local hotels and would likely bring them to the conference center. While some companies indicated they have reasons for moving various meetings around the country, most indicated a preference for holding meetings near the headquarters and were enthusiastic about a meetings center in Troy.

The recommended conference center will have a 25,000-square foot ballroom that will be able to accommodate groups of up to 3,000. Because area hotels are able to accommodate groups of up to 1,000, the conference center will have little competition for groups requiring seating in excess of 1,000 people.

Based on our review, the 130 annual events generated by area employers that have been projected for the proposed conference center should be attainable.

<u>State Conventions and Associations</u>

The Johnson Consulting study reported that the proposed conference center would attract some state and regional conventions and associations. We obtained information on the Michigan convention business to determine how many of the groups would be able to fit into the proposed meetings center. Our research found that approximately 90% of all the state groups require less than 15,000 square feet of space, and their attendance is such that a 25,000 square foot ballroom can accommodate their largest sessions.

Our research also found that some groups rotate up to four different geographic areas of the state, meeting in the Detroit area perhaps every two to four years. Other groups, particularly associations, may only use northern resorts for their large annual meeting locations. Some of these groups may have a second meeting that is usually held in the Detroit area.

The study concluded that the Troy facility would have limited appeal to major national association conventions, however, it could expect to attract some regional association business, particularly associations with some local ties to the Detroit area.

The Johnson Consulting study projected a capture of 20 convention and associations in the facility's fifth year of operation. Given the favorable attributes of the Troy area, and the high level of convention activity in the state, we feel that this estimate may be somewhat conservative.

Local Functions

Conference centers must fill in their vacant dates with local events and consumer shows. Local events, such as banquets, receptions and fund raisers, in particular have shorter booking times than do conventions and trade shows, and therefore can be booked into the gaps in the center's schedule. A total of 124 such events were projected for the conference center in its fifth year of operation, which averages 2.4 functions per week. Based on the population density of the market area and the experience of comparable facilities, this level of utilization appears reasonable for this market segment.

The Johnson Study projects that all of the local functions will require less than 20,000 square feet of public space. Therefore, it is likely that some of these events could fit into area hotels that have a large ballroom. Given the limited number of these facilities, and the fact that local function demand is highly concentrated on Saturday and Friday nights, significant capacity constraints exists within the available facilities at the present. Therefore, while there will likely be competitive impact on area hotels for some of this demand, the impact is expected to be minimal.

REFINEMENTS IN ATTENDANCE PROJECTIONS

While we did not perform an in-depth market study for the conference center, we did interview a number of meeting planners and executives of organizations that are actively involved in the meetings business. We also have experience and familiarity with the meetings industry gained from market studies for convention centers and hotels that we have performed throughout the state of Michigan. We relied on this background in our evaluation of the attendance projections prepared by Johnson Consulting.

Based on our evaluation of attendance projections, we feel that attendance is likely understated for convention activity and may be overstated in other categories, particularly in the areas of trade shows, and special events. In total we conclude that the total attendance projected in the Johnson Study may be optimistic by about 20 percent.

Although the center's total attendance may be slightly less than the Johnson Study predicted, there would be minimal effect on the project's economic impact. This is because the increase in convention attendees we expect, with their higher spending patterns, may all but make up for the purchasing power loss caused by the lower general attendance. The actual attendance figures will be greatly affected by the types of groups the conference center management chooses to pursue.

ALTERNATIVE MEETING FACILITIES

In order for the proposed conference center to achieve maximum utilization, it should offer facilities that are unique or minimally competitive with other meeting facilities in the greater Detroit area and with area hotels. There are two major convention/exhibition facilities in the Greater Detroit area.

Cobo Center – The Cobo Conference/Exhibition Center, with a total of 2.4 million square feet, is the largest exhibition facility in Michigan. It has two divisible exhibition halls of 603,000 and 98,000 square feet each, and nearly 60,000 square feet of ballroom space, the largest of which is 27,000 square feet. The facility also has 48 meeting rooms that can be divided into 68 separate meeting spaces, with a total of nearly 116,000 square feet. The immense scope of these facilities is best suited for national and other extremely large groups.

Cobo Center faces several problems that result in a lower than expected level of utilization. The center is not available for large events during the five and one-half months it is occupied by the Detroit Auto Show and related events. Also, downtown Detroit still has a somewhat negative perception among event planners as a desirable destination for large events. Finally, the center is known for its high labor costs and is thought of as a difficult place to conduct an event.

Novi Expo Center - The Novi Expo Center is a converted warehouse that contains a total of nearly 214,000 square feet of meeting space. It has 203,600 square feet of exhibit space in four exhibit halls, the largest of which has 104,000 square feet, and five meeting rooms with a total of 10,300 square feet. Because of the expansive exhibit halls and relatively low rents, the facility focuses on consumer shows and approximately one-half of the events held last year occurred on weekends. There are approximately 5,600 hotel rooms located in the Novi vicinity.

A new ±300,000-square foot facility is under construction to replace the Expo Center, with completion expected in late 2003. The new facility will contain 225,000 square feet of exhibit space and 30,000 square feet of meeting space. While this facility will continue to host consumer shows, it will contain a full kitchen to better accommodate weddings, banquets and corporate functions.

Large area hotels – There are two hotels in the Greater Detroit area that have an excess of 20,000 square feet of meeting space and function as an alternative to Cobo Center for larger meetings.

Renaissance Center Marriott has 1,298 guestrooms and is located in the downtown Detroit. This property has approximately 100,000 square feet of meeting space, with its largest space being approximately 25,800 square feet, and can accommodate a group of up to 2,000 people. There are approximately 27 meeting rooms at this property including two ballrooms.

Dearborn Hyatt, located just west of downtown Detroit, has 772 guestrooms, approximately 52,000 square feet of meeting space, and can accommodate a group of up to 2,000 people. There is a ballroom measuring approximately 10,000 square feet, and an exhibit hall, measuring approximately 18,600 square feet at this property.

Proposed new assembly facilities – Other Detroit area communities are contemplating the development of assembly facilities. The most serious discussions at this point involve a proposed convention center near the Detroit Metropolitan Airport. While the Johnson Study found Troy to be a superior location to the Romulus area, proximity to the airport and the large number of hotels surrounding it, make Romulus a viable alternative. A second large suburban meeting center would split area demand and create a negative impact on both centers' economic feasibility. Therefore, if the Troy conference center project does not continue in a timely manner, it could very likely be precluded by another development.

CONCLUSIONS

- Our interviews with associations and corporate representatives and with executives in the Metro Detroit Convention Bureau and the Michigan Society of Association Executives clearly show significant interest and market potential for the proposed meeting facility in Troy.
- Our own analysis found that the Troy area's attributes, with respect to commercial activity, demographics, hotel supply and entertainment options, make it a desirable location for a conference center.
- We also found that, with the exception of Cobo Hall, there are very limited large meeting spaces in the Greater Detroit area.

Based on the analysis performed by Johnson Consulting and our own research, we conclude that the proposed conference center is market justified. The primary markets that will use the facility are state associations and regional meetings of national associations. Secondary markets will be major Oakland County based companies, as well as federal and state government offices.

Facility Recommendations

The Johnson Study recommended the following major meeting facility components for the Troy conference center:

Exhibit space	80,000 Square feet
Ballroom	25,000 Square feet
Meeting rooms	15,000 Square feet
Total primary space	120,000 Square feet

Groups requiring 20,000 square feet or more of function space cannot currently be served by any hotel or conference/banquet facility existing in Troy or Oakland County. The proposed 25,000-square foot ballroom would be able to accommodate many of the large groups that are presently forced to leave the area to find adequate meeting facilities. This facility will bring new meetings business and associated lodging demand to the community and will have little competitive effect on the area's group-oriented hotels, which are unable to house groups of this size. To the extent that smaller groups choose to use the conference center in lieu of area hotel ballrooms and meeting rooms, some competition could develop. However, the center will be marketing to the largest groups it can attract, in order to maximize the utilization of its facilities, so this impact should be minimal.

The range of primary meeting space suggested for the new center ranged from 25,000 to 250,000 square feet, and the Metro Detroit Convention Bureau executives felt that the center should have a minimum of 200,000 square feet in order to compete with the meeting facilities in Lansing, Grand Rapids and other Midwestern cities. The Johnson Study recommended a first phase project of 120,000 square feet of primary space, designed so that the space can be doubled at some point in the future.

In general, we concur with the initial facilities recommended in the Johnson Study. If the conference center is going to be built without an option for later expansion, we suggest that a larger ballroom with 15,000 to 25,000 more square feet be considered. However, the original facilities program is of sufficient size to achieve an economic level of utilization and to allow for efficient economies of scale in operations and management.

Expansion Philosophy

Convention centers are frequently expanded, some several times, in response to both increased market share and increased demand. It can take a new meetings facility up to five years to fully establish its market position. Since national groups select a location up to three years in advance, and many state groups rotate among several cities, it may take five years before all groups have an opportunity to try a new facility. At this point, when a general awareness of the facility has been established, a reputation developed and a solid utilization base exists, utilization of the facilities peaks and capacity constraints begin to be encountered. In order to be economically viable, most meeting facilities are sized so that they are able to achieve at least a modest level of utilization during the initial period as they are establishing their market position. Once a center has established itself, expansion may be considered if its users now need larger spaces and/or meetings demand has continued to grow in the region.

A community does not necessarily have to expand their facility and try to keep up with growing demand. If at maturity the center begins to turn groups away because of capacity constraints, they can become more selective in the groups that they do book, and seek out the more profitable events. Unless a particular user is a key area employer whose satisfaction is important to the community, a user that outgrows the meeting facility can usually be replaced with another group whose space requirements can be accommodated.

There is a market scenario that could evolve that may require an expansion of the facility. Some communities have found that over time, a large proportion of their convention center users have outgrown the meeting facilities, and other communities in the region have built similarly sized competitive facilities, creating a marketplace where there is greater competition for a declining number of available groups. This scenario is more applicable to larger convention facilities that compete nationally for groups and events. Given the modest size of facilities being proposed and the apparent depth of the area demand, we feel that this scenario, where expansion is required to maintain economic viability, is unlikely to occur.

SUMMARY

Troy and the surrounding area possess all of the factors that contribute to a successful meetings facility. The area supports over 6,000 hotel rooms in a variety of both full service and limited service hotels. Troy is easily accessible via highway and is no more than an hour from the metropolitan area's various business concentrations and its three airports. Troy's distance from the Wayne County Airport is its only somewhat negative factor, and this would affect its ability to attract some regional groups. Troy and the immediate surrounding area boasts excellent shopping, restaurants and other entertainment options for meeting attendees.

The main users of the proposed facility will be area corporations for large meetings and tradeshows; state conventions and associations; and local organizations for banquets and special events. With the exception of Cobo Center, there is a lack of large meeting spaces in the Greater Detroit area. We concur with the results of the Johnson Study that the proposed conference center is market justified. We feel that the center will attract more convention business than originally projected, which will increase the level of spending in the community, but any resulting increase in economic is offset by our belief that the facility's total attendance projections may be slightly overstated. This facility will bring new meetings business and associated lodging demand to the community and should have limited competitive impact on the area's group-oriented hotels, as the center will target large groups that cannot fit into hotel ballrooms.

We concur with the recommended 120,000 square feet of prime meeting space, but suggest that a larger ballroom be considered, particularly if a later expansion of the facility is not contemplated. As demand for meeting space continues grow, the conference center can become more selective in its bookings and improve its profitability, as an alternative to expanding the facility in an attempt to capture all the groups that may be available.

V. HOTEL NEEDS ANALYSIS

Assessing the ability of a community's hotel supply to meet the lodging needs of a conference center requires consideration of a number of factors. The key factors include availability of a headquarters hotel and proximity of it and other supporting hotels to the center; range of amenities and room rate alternatives among the supporting hotel supply; and market occupancy patterns and capacity constraints. The Troy area is evaluated with respect to these factors in the following discussion.

CONFERENCE CENTER LODGING DEMAND

The proposed conference center is projected to generate approximately 112,900 annual nights of lodging in its fifth and stabilized year of operations, as shown below.

Projected Room Night Demand
Generated by the Conference Center

	Year 1	Year 2	Year 3	Year 4	Year 5
Conventions	21,100	26,100	28,0000	30,100	33,000
Trade Shows	36,200	45,000	50,400	57,900	62,100
Consumer Shows	10,900	9,200	10,300	12,300	12,900
Special Events	0	0	0	0	0
Banquets	0	0	0	0	0
Conference & Meetings	3,700	4,300	4,500	4,700	4,900
Total Lodging Demand	71,900	84,600	93,200	105,000	112,900

Source: Hospitality Advisors

Our research of the group business available to the conference center found that 200 to 500 people typically attend state convention and association functions, while regional functions are slightly larger at 300 to 600 people. Similarly, large conference and meeting functions typically range between 200 and 400 people.

For the most part, the lodging demand generated by consumer shows will occur largely on weekends although exhibitors may stay in the market during the week. The lodging demand generated by conventions and trade shows are typically spread evenly throughout weekdays and weekends. Conference and meeting lodging demand is concentrated during weekdays, but may require an occasional Sunday night stay. For analysis purposes we are assuming that the lodging demand attracted by the conference center will be spread evenly throughout the entire 7-day week.

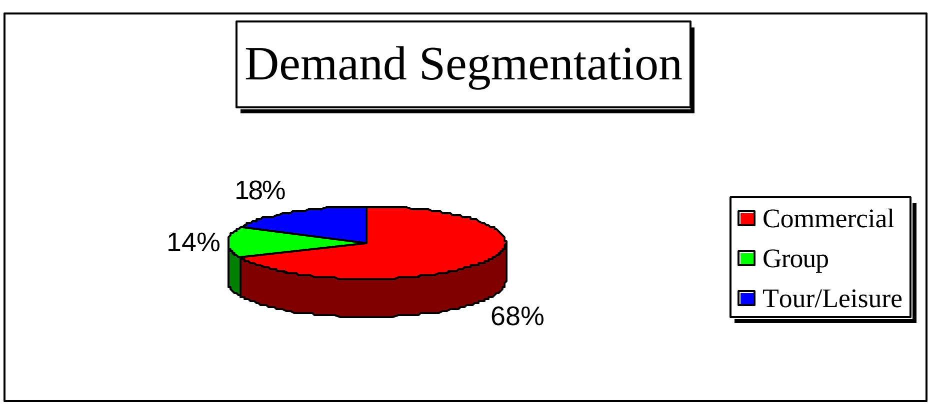
CHARACTERISTICS OF LOCAL LODGING MARKET

The dynamics of the lodging industry are such that a hotel must attract several market segments in order to be successful. Typically, commercial lodging demand dominates the weekday business and leisure demand is more prevalent on the weekends. Group business is greatest during weekdays, with some spillover combined with social functions on weekends. Hotels oriented towards the corporate traveler may operate near capacity during the week and may be nearly empty on weekends, while hotels with banquet space may achieve much higher occupancy on weekends as a result of social functions they attract. These characteristics can produce weekly cycles in which occupancy can vary dramatically within individual hotels and within a market as a whole. The ability for a market to accommodate additional lodging demand is therefore directly related to whether this demand will occur during the weekday or the weekend.

Local Market Demand

In the Troy area, demand is greatest during the week, primarily Monday through Thursday nights, with the exception of the weekends when area-wide events draw visitors to the hotels. Area events in this market included various automobile related shows and conventions that draw demand to the Metropolitan Detroit area. At these times, both occupancy and average rate are boosted above the levels achieved the rest of the year. As is typical of commercial markets, the strength of the local employers drives this demand segment. The increased leisure demand that occurs during area-wide events serves to stabilize area hotel occupancies.

Based on information gathered during the course of our fieldwork, we have separated area lodging demand into three segments: commercial transient, group, and tourist/leisure. It is necessary to identify and quantify each demand segment in order to estimate future demand, as each demand segment exhibits different characteristics. The dynamics of the lodging industry are such that a hotel must attract several market segments in order to be successful. The following table illustrates the estimated room night demand captured by the area's hotels during 2001, by market segment.



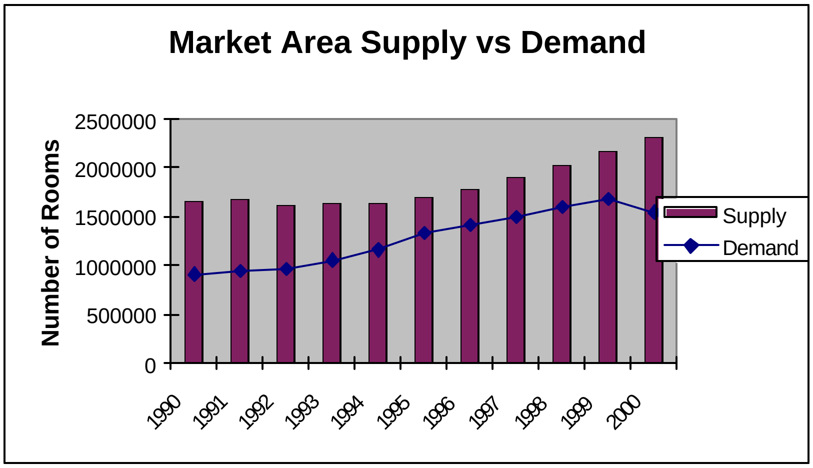
The **commercial transient** segment consists of individuals traveling to the market area for business reasons. This demand occurs throughout the year, but weakens on holidays and is received primarily Monday through Thursday. The individuals in this segment tend to choose lodging accommodations convenient to their destination. Quality of service, as well as an active environment is important factors to this segment. Major sources of this demand include business people calling on area companies listed earlier, business demand generated by local businesses, governments, employees visiting headquarters offices, and visiting audit and regulatory agencies. Rate sensitivity is less apparent with this segment than with others. Typically, commercial lodging demand dominates the weekday business and leisure demand is more prevalent on the weekends.

The **group** segment is characterized by individuals traveling to the area to attend association meetings, sales meetings, training seminars, regional professional conventions, regional or district corporate gatherings, and social, fraternal, and religious gatherings or reunions. The length of stay in this segment is typically longer than for commercial demand. Rate, proximity to convention facilities, and food and beverage facilities are major decision making factors in this segment. The majority of group business in the north suburban area is comprised of training, conventions, corporate gatherings, and other similar activities associated with the automotive industry. Group business is greatest during weekdays, with some spillover combined with social functions on weekends.

The **tourist/leisure** segment of the market consists of visitors to area attractions and events, visitors to community residents, travelers on the area's highways, and weekend get away packages. The tourist/leisure segment is somewhat seasonal and is generally greatest on weekends. Characteristically, tourist/leisure demand is more price sensitive than other demand segments. Convenience of location is another criterion for hotel selection in this segment, as are amenities and facilities offered.

Hotel Supply Performance

The hotels in the market area have historically experienced cycles in which lodging demand temporarily declines and then begins another cycle of growth. Over the last ten years, total lodging demand has increased at an average of 5.5%. The supply of hotel rooms has increased at an average of 3.5% over this period. This represents net growth of approximately 2.0%. The overall market occupancy has ranged between 55.0% and 79.2% since 1990.



The area's supply of 6,361 hotel rooms was estimated to have achieved an annual occupancy of nearly 65 percent in 2001. The full service hotels, which make up about 52 percent of the total number of rooms, ran an average occupancy that was about 2.5 points higher than the limited service hotel rooms. This is due to their ability to generate lodging demand from groups utilizing their meeting space.

Hotels oriented towards the corporate traveler may operate near capacity during the week and may be nearly empty on weekends, while hotels with banquet space may achieve much higher occupancy on weekends as a result of social functions they attract. These characteristics can produce a wide variance within the weekly occupancy cycle. Our analysis found that the area hotels on average achieved about 76% occupancy during the week and only 50% on weekends. The table below summarizes the performance of the area's hotels.

Subject Market Lodging Characteristics 2001

		Full Service	Limited Service	Total
Total lodging supply (Rooms)		3,326	3,035	6,361
Occupancy:	*Weekday*	76.5%	75.1%	75.8%
	Weekend	51.9%	48.2%	50.1%
	Overall	66.0%	63.6%	64.9%
Total demand				
Market mix				
	Commercial	64%	73%	68%
	Group	22%	5%	14%
	Leisure	14%	22%	18%
Average Daily Rate:		$118.93	$63.72	$93.10

Source: Hospitality Advisors

The ability for a market to accommodate additional lodging demand is directly influenced by whether this demand will occur during the weekday or the weekend. In the Troy area market, on average hotels are 3/4ths full during the week and probably near capacity on Tuesday and Wednesday nights when weekday demand peaks. Therefore, little capacity exists to accommodate additional lodging demand during most weeknights. In contrast, nearly ½ of the area's hotel rooms are vacant on most weekends.

Capacity Constraints

Capacity constraints must be evaluated in terms of the number of vacant rooms that typically exist in a market and the weekly cycle, not merely the total number of hotel rooms. Hotels will typically make available only a portion of their rooms for a group, as they want to be able to accommodate their loyal customers and also have available enough rooms to support in-house group functions. Therefore, the area lodging supply must be large enough to accommodate the additional weekday group business that will be attracted by the conference center within the 25% vacancy that exists in the market on most weekdays. With a total supply of 6,361 hotel rooms, an event requiring 1,600 hotel rooms would fill all of the area's hotels to capacity. On a Tuesday or Wednesday night when hotel occupancies are closer to 90%, there may only be capacity for an additional 600 occupied rooms in the entire market.

In reality, since attendees want to stay near the meeting facility, meeting planners would look to the capacity of the hotels in the immediate area for all but the largest events, so that the realistic ability of the area to accommodate additional weekday group lodging demand is significantly smaller. There are four hotels in the immediate area that could provide convenient lodging for conference center attendees:

Hotel	Rooms
Troy Marriott	350
Northfield Hilton	191
Somerset Inn	250
Drury Inn	149
Total	940

Even if these hotels make 50% of their rooms available to a conference center group, this would make 470 rooms available in hotels in the proximate market area.

It is the conventions and conference/meetings held at the conference center that will produce the greatest demand for lodging accommodations. The convention business is spread evenly throughout the week, however the conference business is concentrated on weekdays. Much of the lodging demand from the conference center will fall on weekdays, the period in which demand for area's hotels is at a peak. Our research shows that typical group sizes for the potential users of the conference center range from 200 to 600 for conventions and 200 to 400 for conference/meetings. Therefore, with an average of only 395 full service rooms available during the week, within a proximate distance to the subject property, the larger groups will frequently deter lodging demand to more distant hotels. This situation is likely to become a competitive issue when groups are evaluating alternative meeting locations.

The proposed conference center is projected to generate nearly 113,000 roomnights annually, or approximately 310 roomnights per day for the market area.

Proximity of Hotels

A conference center ideally should have a hotel either connected or immediately adjacent to provide convenient lodging for attendees and participants. Groups that have outgrown most hotel facilities are used to this amenity and therefore seek larger meeting facilities that offer convenient lodging. Also, most of the larger convention centers throughout the country have at least one conveniently located hotel that can serve as the headquarters for a particular function.

The 350-room Troy Marriott located adjacent to the site is well positioned to function as a headquarters hotel for the proposed center. It is conveniently located and could possibly even be connected to the new center. It also has a large amount of meeting and banquet space that could be used in conjunction with the facilities at the conference center. However, the hotel presently generates its own group business and frequently operates near capacity on weekdays when commercial demand is at its peak. The adequacy of this hotel to function as a headquarters hotel for the center is discussed in a subsequent section of this report.

Additional conveniently located lodging alternatives, or more rooms at the Troy Marriott, should be available to accommodate groups that exceed the headquarter hotel's capacity and to provide lodging alternatives for attendees. As described previously, there are 48 hotels with a total of 6,361 rooms in the market area. There are four hotels with a total of approximately 940 rooms in the immediate area, and 28 hotels with a total of 3,637 rooms within four miles of the subject site.

The extensive supply of hotels in the market area should provide an adequate supply of rooms for very large groups, but the number of rooms that may be available within the immediate area are limited.

Hotel Amenities

There are three hotels in the market area that have large ballrooms, which have capacities ranging from 50 to 1,000. Capacities are reduced, however, for functions that require both a meeting and a meal, as the ballroom must be divided to serve both functions. The area hotels that offer large assembly spaces are summarized in the table below.

Hotel	Number of Meeting Rooms	Largest Room Size	Capacity	Total Meeting Space
Troy Marriott	17	8,448 Square Feet	1,000	18,000 Square Feet
Somerset Inn	17	7,200	880	15,873
Northfield Hilton	13	7,440	1,000	18,808

Source: Hospitality Advisors

These hotels, for the most part, are able to meet the needs of groups of up to 1,000 or that require up to 15,000 square feet of function space. Therefore, although some of these functions may occasionally rotate to the conference center, most of its business will originate from groups that are too large to fit their functions into area hotels.

Commercial transient demand in the competitive market decreased 1.8 percent from 2000 to 2001, and increased an average of 3.0 percent annually from 1998 to 2001 while supply increased an average of 6.2 percent annually from 1998 to 2001. Based upon the nature of these businesses and the historic growth as well as the prospects for future demand growth from activity in the industrial and office parks in the surrounding areas, we anticipate slow growth will continue throughout the period of prospective analysis. Local demand generators have indicated that their travel budgets are being reduced in reaction to the overall economic downturn of the automotive industry. We have estimated growth in the commercial segment at 2.0 percent annually throughout the remainder of the period of prospective analysis

Demand in the **Group segment** represents a relatively large portion of demand. This segment increased approximately 2.4 percent in the last year, and increased an average of 2.4 percent annually from 1998 to 2001. Corporate groups are a large portion of this segment, thus, we believe near-term growth will be slow due to budget cuts. We estimate that the group segment will grow by 2.0 percent annually throughout the period of prospective analysis, exclusive of the new demand that would be created by the conference center.

The **Leisure segment** has historically been strongest during the summer due to the many attractions in the Detroit Metropolitan area and events in surrounding areas. This segment decreased 2.7 percent from 2000 to 2001, and increased approximately 3.1 percent annually from 1998-2001. We estimate that the leisure segment will grow by 1.0 percent annually throughout the period of prospective analysis.

Our estimates for future growth in the market area's core lodging demand are presented in the following table.

Estimated Room Night Demand for the Market							
	2001	2002	2003	2004	2005	2006	2007
Commercial/Transient	1,027,120	1,047,660	1,068,610	1,089,990	1,111,790	1,134,030	1,156,710
Group	211,503	215,730	220,040	224,440	228,930	233,510	238,180
Tour/Leisure	267,175	269,850	272,540	275,270	278,020	280,800	283,610
Total	1,505,798	1,533,240	1,561,190	1,589,700	1,618,740	1,648,340	1,678,500
Est. Market Occupancy	64.9%	66.1%	67.3%	68.5%	69.8%	71.0%	72.3%

Source: Hospitality Advisors

Our projection for the future lodging market shows a very healthy 70% market-wide occupancy occurring in 2005. Since some of the hotels in the supply are older and therefore run lower than market occupancies, this means that the newer properties will be achieving very high occupancies. Factoring in the weekday/weekend cycle, and the fact that the commercial segment (mostly weekday) is growing in the greatest numbers, many hotels will have to turn business away on weekdays.

The table below shows the effect that the proposed conference center is projected to have on the area hotels, under the assumption that the existing hotels can accommodate all of the lodging demand. The resulting occupancies are so high that much demand would have to be turned away from the market and, because of the strong demand, room rates would likely increase substantially, perhaps to the point where groups would seek a less expensive city for their functions.

Estimated Room Night Demand for the Market with Conference Center							
	2001	2002	2003	2004	2005	2006	2007
Existing Market Total	1,505,798	1,533,240	1,561,190	1,589,700	1,618,740	1,648,340	1,678,500
Conference Center	0	0	0	71,900	84,600	93,200	105,000
Total	1,505,798	1,533,240	1,561,190	1,661,600	1,703,340	1,741,540	1,783,500
Est. Market Occupancy	64.9%	66.1%	67.3%	71.6%	73.4%	75.0%	76.9%

Source: Hospitality Advisors

Projected Future Hotel Needs

The analysis above shows that the area lodging supply will experience frequent capacity nights, particularly during the weekdays, after the proposed conference center opens. This shortage of available hotel rooms will hinder the ability of the center to attract large groups and may also begin to discourage commercial and leisure travel to the area. We doubt that a rooms shortage would last very long before new hotel development occurred.

New hotel developments are typically economically viable at an annual occupancy of 65 to 70%, so that a market operating at the levels expected to exist around Troy would stimulate new hotel development. We can estimate the number of new hotel rooms that the market should be able to support by calculating the increase in supply that will stabilize the market occupancy at a healthy 70%.

Estimated New Hotel Room Absorption for the Market with Conference Center

	2001	2002	2003	2004	2005	2006	2007
Projected Market Total	1,505,798	1,533,240	1,561,190	1,661,600	1,703,340	1,741,540	1,783,500
Average Daily Demand	4,125	4,201	4,277	4,552	4,667	4,771	4,886
Annual Rooms Available	6,361	6,361	6,361	6,361	6,361	6,361	6.361
Est. Market Occupancy	64.9%	66.1%	67.3%	71.6%	73.4%	75.0%	76.9%
Supportable New Rooms							
At 70% occupancy	0	0	0	141	306	455	619
Total Daily Rooms Supply	6,361	6,361	6,361	6,502	6,667	6,816	6,980
Market Occupancy	64.9%	66.1%	67.3%	70.0%	70.0%	70.0%	70.0%

Source: Hospitality Advisors

Based on the lodging demand that the Johnson Study predicts will be created by the conference center, and modest growth in the existing core demand, we conclude that the area market should be able to support another 600 hotel rooms by 2007.

We evaluated the Johnson Study lodging demand projections based on our own research of the market and knowledge of the meetings market. We feel that the lodging factors applied in the initial study may have been more appropriate for a larger convention facility that draws patrons from multi states. We applied lodging factors that are more appropriate for a suburban center such as the subject to the mix of business that we estimated for the center. In our most conservative analysis, we found that the conference center, at stabilized operations, would be expected to generate 65,000 annual roomnights, instead of the 112,900 projected by Johnson Consulting. To reiterate, the actual number of roomnights that will come from the center is very probably somewhere in between these two figures and will be heavily influenced by the conference center's marketing efforts. For purposes of analysis, we calculated the effect on the lodging market if the center was to generate the lower number of roomnights.

We found that this conservative scenario would allow for the development of 327 new hotel rooms by 2007 and still result in a 70% market-wide occupancy.

The city is in a position where it can influence hotel development so that it has a maximum benefit for the conference center. The construction costs associated with large amounts of public space are so great that very few full service hotels have been built in the last decade. Therefore, the type of new hotels that will likely sprout in the community will be of the limited service variety, devoid of meeting and banquet space. While these hotels will provide the required additional new rooms, they may not be located proximate to the conference center and will not fulfill the needs for a headquarters hotel. The city has the opportunity to encourage the development of a new supportive hotel adjacent to the conference center and should act on this opportunity before it is precluded by new hotel developments elsewhere in the market.

Headquarters Hotel Recommendations

The conference center will need a headquarters hotel to provide convenient lodging for attendees as well as to provide facilities for meals and social gatherings during the function. Participants require this amenity and the size, quality and convenience of the hotel can influence meeting planners in their site selection. Interviews with corporate and association representatives indicated they would like to have available between 500 and 800 hotel rooms adjacent to the center. Ideally, they would like to have 500 rooms available in a single hotel. In addition to the 350-room Marriott adjacent to the site, we recommend that another 200 to 300 hotel rooms be added and connected to the conference center if possible, in order to adequately meet the conference center's lodging needs.

The Troy Marriott is conveniently located adjacent to the conference center site and could function as a headquarters hotel. It has 350 rooms and its amenities include 18,000 square feet of meeting space, a restaurant and a lounge. The hotel is approximately 12 years old and is of high quality and well maintained.

The Marriott, however, may not want to fulfill the role of a headquarters hotel. It presently enjoys a strong commercial business from which it receives relatively high room rates. It also has developed a good group business with functions that purchase all of their food and beverage from the hotel and also rent hotel rooms. Therefore, the hotel may not want to rent out large numbers of sleeping rooms, at possibly discounted rates, to conference center functions that will not be utilizing the hotel's banquet facilities. The hotel may see an opportunity, however, to add more sleeping rooms so that it has lodging capacity sufficient to support its own meeting space and provide lodging for conference center functions as well.

The mutually beneficial relationship between the hotel and the conference center would be further enhanced if the hotel managed the center. In this event, the hotel would receive financial benefit from food functions held at the center and therefore, would be more cooperative in providing rooms for groups that only use the center's facilities.

The development of a second hotel should be encouraged adjacent to or on the site. Ideally this hotel would function as an alternative to the Marriott and would bring the benefit of a second reservation system to attract lodging demand. This hotel would not have to incur the costs of expensive meeting and banquet space and therefore, should be able to offer high quality sleeping rooms at modest rates.

Examples of high quality, mid-priced limited service hotels that would be suitable for this location are Hilton Garden Inn and Wyndham Garden. An all-suite hotel is also suitable for the site, as it would add a lodging facility alternative that is very popular with convention and tradeshow participants and with exhibitors that are likely to require a multi-night stay.

The ideal situation would be if the Marriott added another 100 to 150 rooms, including some suites, and agreed to provide a block of rooms sufficiently large enough to function as a headquarters hotel. A second hotel of 150 to 200 rooms should then be constructed adjacent to the Marriott, with very limited public space in order to keep construction costs down. This hotel could then offer moderately priced sleeping rooms, below the Marriott's rate structure. The other hotels in the immediate area and the surrounding community would be available to help accommodate larger groups, as well as attendees seeking alternative lodging accommodations.

While the new hotel would be oriented towards conference center business, it would also have to capture area commercial and leisure lodging demand. Therefore it needs to be highly visible and easily accessed from Big Beaver Road. Considerations for the location of the new hotel include:

- Ability to be connected to the conference center;
- Proximity to the Marriott hotel; and
- Visibility from Big Beaver Road and I-75.

Hotel Issues

There are several issues raised by new hotel development at the site, particularly if public incentives are involved. These are identified and discussed below.

Issue 1: *What is the likely impact of the recommended new hotels on the existing hotels?*

> Quantitatively, if the hotels come on the market in 2004-2005, the overall market will still be able to attain occupancy of 70% or better. The conference center will, on many occasions, attract more lodging demand than can be accommodated in the new hotel rooms; this overflow will benefit other hotels. Also, much of this new demand will be attracted on weekends, when hotel occupancies are at their lowest, thus minimizing the amount of existing lodging demand displaced by the new group demand. There will be some group functions that may move from existing hotels to the conference center as a new venue.

Demand for large meeting spaces seems to be great enough among the hotels now, that they will have a high probability of replacing most of any business that is lost to the center. All in all, the center is projected to generate approximately 112,900 annual roomnights when stabilized, or an average of 309 rooms per day. At 70% occupancy even 300 new hotel rooms would capture only 210 of the 309 average daily rooms attracted, resulting in a net benefit of 99 rooms per day to the rest of the hotel supply.

Issue 2: *What is the impact on conference center operations if no new hotel rooms are added in the immediate area?*

The attractiveness of the convention center for conferences and conventions will be influenced by the number, quality and location of conveniently located hotel rooms. If no new hotel rooms are added in the immediate vicinity of the conference center, the existing Marriott and even the Somerset Inn have the capability to adequately support groups using the center. For the economic reasons previously discussed, these hotels may decline this support on occasions when they are filled with internally generated business. If this occurred with enough frequency, the conference facility could get a reputation for limited hotel availability that would impact its competitiveness.

Issue 3: *Conference center management will have to coordinate and receive cooperation from the area hotels in booking groups that require large room blocks.*

It will be imperative that the hotels be willing to block a sufficient number of rooms and far in advance of an event, so that the conference center can successfully book the larger events that frequently have a long lead time.

SUMMARY

The area hotel demand historically has been somewhat cyclical, with recent market wide occupancies running as high as 79 %. Due to the large proportion of commercial lodging demand, area hotels frequently operate near capacity on weekdays and may be half full on weekends. This potential weekday capacity constraint is important in determining the ability of the existing hotel supply to be able to accommodate the nearly 113,000 new roomnights that the conference center is expected to generate.

Our analysis projects that this new lodging demand, combined with the expected growth of the existing demand base, will produce the need for up to another 600 hotel rooms in the market area by 2007. Ideally, between 500 and 800 hotel rooms should be available in the immediate area of the conference center, including a 500-room headquarters hotel. An expansion of the existing Marriott and construction of a second smaller hotel would meet the parameters for hotel support.

VI. PERFORMING ARTS CENTER

We have been asked to consider the impact that a performing arts center might have on both the utilization and the economic feasibility of the proposed conference center. The facility being considered would have between 700 and 1,200-tiered seats with a stage, appropriate lighting for productions and sufficient dressing rooms, and other backstage facilities to function effectively as a venue for the performing arts.

LOCAL USAGE

Discussions with area promoters revealed that a minimum of 4,000 seats is needed to accommodate musical groups, Broadway theater and other entertainment acts that are capable of generating a profitable volume of ticket sales. While there are examples of smaller venues of 2,000 to 3,000 seats in other cities, particularly historic restored theaters, that do present this type of entertainment, they are almost all owned by non-profit organizations. Since the size of venue being considered in Troy is smaller than these minimum sizes, there would likely be few opportunities to book the arts center for commercial uses that could afford to pay market rent. Consequently, it is unlikely that a private entity would be interested in developing this facility as a for-profit venture.

Without commercial usage, the performing arts center would serve local and community users almost exclusively. Our experience with facilities of this type in other cities has shown that these groups, which typically are funded by grants, endowments or public subsidy, are not able to pay market rental rates for a practice and performance venue. Therefore, these smaller performing arts theaters strive to cover their operating costs (before debt service) with revenue generated from rents and admission receipts.

CONFERENCE CENTER USAGE

The proposed performing arts center facility would be attractive to many of the potential conference center users. Privately owned conference centers usually have a tiered theater/lecture hall because they enhance visibility for the participants and allow for better communication between the audience and the presenter. While tiered seating provides for excellent visibility, the lack of a flat floor limits the alternative uses for the room. Very few hotels (and none in the market area) offer a tiered facility because they are expensive to construct and are relatively inflexible for other uses. Therefore, the availability of such a facility would be an advantage for the subject conference center.

Interviews with potential users indicated an interest in using the theater for such events as opening addresses, product introductions, presentations and training sessions. While most theaters within private conference centers have narrow tables in front of the seats for work materials, this design is not appropriate for the performing arts. The lack of a writing surface for participants may hinder its use for some purposes. Furnishing the center with seats that have a collapsible writing surface attached, similar to a lecture hall could mitigate this shortfall.

POTENTIAL CONFLICTS IN USE

The actual amount of usage that the theater would receive from conference center groups will be reduced from its total potential by scheduling conflicts. While the majority of the conference center use would occur during the day, when performances would be at a minimum, this usage could conflict with rehearsals and with afternoon performances. Also, decorations and themed sets required by some performances could interfere with the functionality or preclude entirely business meetings held in the theater.

The performing arts center's management will have to develop booking policies that are acceptable to the community. A major issue facing management will be whether or not priority is given to revenue producing events vs. providing equal access to all groups, regardless of their income producing ability.

AREA THEATERS

There are a number of theaters and performing arts venues in the Metropolitan Detroit area. These facilities range from large, privately owned structures to small historic theaters. Only the smaller venues would be considered to be competitive with the proposed 700 to 1,200-seat performing arts center. It is likely that many of its users, particularly community-based performing arts groups, will be upgrading from inferior school or other public facilities.

Descriptions of the area's major concert and performing arts venues are presented below.

Palace in Auburn Hills is a 20,000-seat assembly facility that houses professional basketball games, concerts and family shows.

Macomb Center for the Performing Arts is a 1,271-seat theater that features a diverse offering of 90 to 100 events annually, including Broadway musicals, jazz, classical and dance programs. The center is located approximately 15 miles west of the subject site.

Meadowbrook Music Festival and Theatre- Oakland University hosts 30 to 40 concert events per year in its 586-seat theater, including the Detroit Symphony Orchestra. Meadowbrook's other events include music, art, food, and wine festivals in its outdoor park.

Downtown Detroit Theaters - A theater district of sorts exists in the downtown that offers a variety of venues and entertainment. Theaters in this area include the **Detroit Opera House**, **Music Hall**, the **Fox Theater**, the **Gem Theater**, **Second City Comedy Club**, and the **State Theater**. While some of these have remained vibrant throughout the years, some venues, such as the Detroit Opera House, have recently undergone major renovations. **Fisher Theatre** is located in the nearby New Center area of Downtown Detroit. Fisher plays host to Broadway acts and musicals, as well as local and regional acts.

ESTIMATED COST

The performing art center's size, quality and scope of facilities would be determined by the city and/or the entity that provides its funding. For analysis purposes, we have assumed that a 16,000-square foot building would be able to house 1,200 seats and adequate to meet the community's needs.

We utilized information published by *Marshall & Swift Valuation Service* to estimate the cost of the performing arts center. Our calculation is for "Average Class A" live-stage theater construction costs. The costs were then inflated by 3% to arrive at an estimate expressed in 2001 dollars, consistent with project cost estimates contained in the Johnson study.

Construction cost (16,000 sq. ft.)	$1,535,000
Seats, curtains, etc.	250,000
Design and other fees	230,000
Land	Not applicable
Total project cost	$2,015,000

ECONOMIC VIABILITY

The proposed performing arts center would be a great asset for Troy and the surrounding community and would undoubtedly encourage the further development of music, theater and dance in the area.

We estimate that a rental fee in the neighborhood of $1,000 to $1,500 per day or evening could be obtained for the theater from meeting and convention groups. Community-based users would pay a broad range of lower negotiated fees. The experience of similar facilities in other communities indicates that the center's operations may have to be subsidized and the cost of its construction obtained from a source that does not have to be repaid by the center. If the theater is managed by the conference center, the resulting staffing efficiencies may allow it to cover its operating expenses. This situation would result in an amenity that would help to sell conference business with no financial drain on the center's operating budget. Since its availability will be a function of the booking policies mandated for its operation, the degree to which the center would be utilized by conference center groups is difficult to predict.

The center's management will have to work closely with the management of the conference center in scheduling events. From an operations standpoint, it would be most efficient if the center were managed by the organization operating the conference center. The additional personnel costs would be significantly less than the costs that would be incurred by a separate organization that would have to staff all positions. Thus, management, marketing, administrative, set-up and maintenance personnel could be shared by the entire complex.

It is unlikely that the center will generate sufficient funds to contribute any substantial amount to its debt service. Therefore, the cost of constructing the facility will have to be Obtained from public sources or endowments.

SUMMARY

The performing arts center, due to its small size, will be oriented towards local and community users, as well as occasional conference center groups. These groups typically do not have the financial capability to pay market rent for a practice and performance venue. Therefore, the facility will have to be publicly funded, but with the added usage by conference center groups, it could be expected to be able to meet its operating costs.

The conference center management should probably supervise the performing arts center. This will minimize overhead costs and help to control scheduling conflicts. Events that require extensive daytime rehearsals or elaborate sets could severely limit the facility's use by conference groups.

VII. OTHER LAND USES

An opportunity to provide additional support to the conference center project exists in the encouragement of housing and retail establishments adjacent to the project site. These developments would generate more real estate tax revenue and the retail would co-exist nicely with the activities at the conference center. Both of these concepts are explored further in the discussion below.

HOUSING

Housing in the immediate area of the project will generate additional real estate taxes and also produce additional population available to support restaurant and retail businesses in the area.

The city has contemplated a PUD on the site of the Liberty Center parking ramp for a mid-rise housing project. While the site's proximity to the planned conference center bears little advantage for housing, the location is proximate to the concentration of office and commercial activity along Big Beaver Road. It is also easily accessible to I-75 and therefore would provide convenient access to the northern suburbs and to downtown Detroit.

Hypothetical Housing Project

In order to estimate the potential real estate taxes that a housing project would generate, we have developed a hypothetical housing project of a reasonable financial scope, that will fit on the site. We then estimated its construction cost in order to arrive at an estimate of the amount of real estate tax it would be assessed.

The subject site consists of the footprint currently occupied by the one-story Liberty Center parking ramp. The dimensions of the rectangular site are 188 feet by 672 feet, or a total of 126,336 square feet. Since this development would be a PUD, it would be exempt from the existing density and setback regulations. Therefore we have assumed the entire site would be available for development. Our hypothetical project assumes a 7-story structure located on the eastern side of the site, supported by a 5-story parking ramp located on the western side of the site.

The residential building would consist of seven stories with 32 units per floor, located within an L-shaped building. Allowing space for a lobby, laundry, pool, fitness room and public room, we estimate that a total of 245 units could be accommodated on the site. These units would contain an equal number of one- and two-bedroom units of approximately 780 and 1,080 square feet, respectively.

The present ramp has approximately 400 spaces on each of its two floors, and we are told that the upper level of the deck is seldom used. The hypothetical project parking ramp would contain approximately 144 spaces per floor. With five floors, three floors would provide 432 spaces reserved for office employees and two floors would provide 288 spaces for apartment residents and guests. Another 60 or so surface spaces would be available around the entrance to the apartment building.

We estimated the cost of this housing project utilizing information published by *Marshall & Swift Valuation Service.* The cost information utilized in our calculation is for "Good Class A" mid-rise apartment construction. The construction cost was then inflated by 3% to arrive at an estimate expressed in 2001 dollars, consistent with project cost estimates contained in the Johnson study. The average cost for a Class A-Average parking space is about $9,500.

Construction cost (308,700 sq. ft.)	$23,135,000
Design and other fees	3,470,000
Appliances and equipment	1,960,000
720 ramp spaces @ $9,500	6,840,000
Land	Not applicable
Total project cost	$35,405,000

The above project cost was used in estimating the total economic impact generated by the project. In estimating the incremental increase in taxable value, the land value is excluded because it presently has real estate taxes assessed against it. The new parking ramp will replace 400 spaces of structured parking (one floor) with 576 spaces of structured parking (on four floors). Therefore, incremental real estate tax increase is calculated on the cost of providing 176 more structured spaces. The additional property tax assessed against the incremental value of the residential improvements on the site are estimated as follows:

Market value building	$26,605,000
Market value ramp (incremental)	1,672,000
Total incremental market value	$28,277,000
Assessment rate	50%
Mils	47.0038
Estimated incremental property tax	$664,600

This analysis shows that a mid-rise apartment project would generate an additional $664,600 of real estate taxes for the community. Within that tax, 15.719 mils go to the Development District, which would amount to $222,000.

RETAIL USES

The City has expressed a desire to encourage the development of retail outlets in conjunction with the redevelopment of the Civic Center site. While a retail market study was beyond the scope of our assignment, we can comment on how the proposed conference center project would impact basic retail principles.

The conference center is estimated to attract 240,000 people at its stabilized level of operation. Big Beaver Road is a busy thoroughfare with many potential patrons driving by the site each day; however, the nighttime population in the immediate area is relatively small. Based on these parameters, retail at the site would be supported primarily by the area's daytime population and by people attending functions at the conference center.

The daytime population would be seeking convenience goods and services, such as drugs sundries, laundry, etc. They also would be seeking restaurants for lunch, possibly breakfast and occasionally dinner or carryout.

The conference center visitors would have needs for convenience goods and many would be interested in restaurants. While most conference and meeting functions include lunch, many trades and consumer show patrons would seek out a restaurant either before or after attending a show. Conventioneers and conferees usually will return to their hotel before dinner, which may be elsewhere in the market area, so they are less likely to patronize a restaurant located near the conference center.

Conventioneers and their spouses are most apt to seek out entertainment retail, such as gifts, art and clothing, since they stay in the area for several days and have more leisure time than the other user segments. These people are likely to shop after the meetings and spouses will shop during the meetings.

Hotel guests and local residents would be a good source of business for restaurants and all other types of retail, particularly in the evenings.

Based on the characteristics of the area's retail potential outlined above, restaurant ventures will have the highest probability for success on the subject site, along with a drug/variety store. The limited visibility of the site from Big Beaver reduces the site's attractiveness for retail development. As pedestrian traffic is limited along Big Beaver, most patrons will be arriving by car. Convenient free parking will be important to the success of any retail on the site.

Trendy shopping/restaurant areas that provide entertainment for visitors and locals have developed in many cities. These ventures are usually operated by local entrepreneurs and develop in a warehouse district or other redevelopment location where rent is inexpensive. Usually led by restaurants that attract potential retail patrons, these areas become successful after they have reached a concentration sufficient to become an attraction. Municipalities provide support to these areas by providing parking, streetscapes and public areas. This development model does not fit the characteristics of the Civic Center site in that any development would require new construction and correspondingly high rents for tenants.

Communities have developed successful newly constructed retail projects but, in almost all cases, they require a significant amount of public support. These projects are created with enough shops to create an attraction, and with a density and usually a theme that makes shopping easy and a pleasant experience. In addition to construction subsidies, rent abatements or other concessions may be required until the complex fully establishes itself. Tenants are boutiques, novelty and specialty shops whose unusual merchandise can draw patrons from outside the community. Many of the conference center patrons would participate in this type of shopping and it would be viewed as a competitive advantage for the facility. The retail project would have to be large enough to draw people from throughout the northern suburbs and therefore would require a significant investment by the City. The number of people attracted by the conference center activities would not be sufficient to support a venture of this magnitude, so that this scope of retail should not be considered as an ancillary development.

SUMMARY

The opportunity exists to provide additional support to the project by encouraging the development of housing and retail at the site. While high density housing would not directly support operations at the conference center, it would bring more potential customers for area restaurants and retail, and would generate significant real estate tax revenue. Retail at the site would have to be primarily supported by the conference center patrons, the area’s daytime population, and hotel guests. Given these parameters, the potential for significant retail development is limited. However, restaurant and convenience retail may be feasible.

VIII. ECONOMIC FEASIBILITY ANALYSIS

ECONOMIC FEASIBILITY DEFINED

Within the investment community, "economic feasibility" is defined as the ability for a project to generate enough cash flow to be able to pay its debt service and provide enough return on the invested equity to justify the risk associated with the venture.

Public assembly facilities cannot achieve this definition of economic feasibility due to several factors. These facilities require a very large capital investment in buildings and in land to provide the large number of parking spaces necessary to support their operations. Compounding the economics is the fact that large meeting facilities are unable to achieve the level of utilization experienced by other forms of real estate because of the difficulty in scheduling simultaneous groups. One group will seldom use all of the facilities, yet it is very difficult to book a second group that can fit into the unused space.

Communities of all sizes have recognized the positive economic impact which convention and exhibition centers generate from the purchasing power of attendees attracted by events held at the facility. Therefore, the competition for groups tends to keep rental rates at the meeting facilities relatively low, often below the cost of providing and maintaining the space. Many communities finance the assembly facility with public funds and even subsidize operations, in return for the purchases of goods and services, sales tax revenues, and other economic benefits brought to the community by the facility.

Economic Feasibility Assumption

The City has expressed its willingness to participate in the capital cost of the proposed conference center, but does not want to have an obligation to continually have to subsidize its operations. Once constructed, it wants the private sector to assume any risk for operating shortfalls. Therefore, for purposes of our analysis, "economic feasibility" refers to the ability of the project to generate sufficient cash flow to be able to pay all of its operating costs, management's fees, and fund a maintenance reserve. This definition assumes that the project will not be expected to pay any debt service.

REVENUE AND EXPENSE PROJECTIONS

The Johnson study presented detailed projections of operating revenues and expenses for the conference center's first five years of operations. As is typical with new meeting facilities, the level of business at the center increases each year until a stabilization occurs in the fifth year, as awareness of the new facility spreads among meeting planners and booking lead times are absorbed. The financial projections for the proposed conference center are summarized in the following table, expressed in 2001 dollars.

Proposed Convention Center
Pro Forma Operating Statement
(in $000's, constant 2001 dollars)

	Year 1	Year 2	Year 3	Year 4	Year 5
Operating Revenue					
Rental Revenue	$647	$719	$792	$887	$958
Gross Food and Beverage Sales	1,811	1,987	2,095	2,257	2,363
Gross Event Services	324	359	396	443	479
Advertising, Promotions and Sponsorships	104	105	106	107	108
Telecommunications	117	130	143	161	174
Parking Revenue (Valet Only)	47	48	52	57	60
Other	18	20	23	25	27
Total Operating Revenue	$3,069	$3,368	$3,607	$3,938	$4,169
Operating Expenses					
Salaries	$925	$991	$1,039	$1,081	$1,087
Benefits and Payroll Taxes	231	248	260	270	272
Advertising, Promotions and Sponsorships	100	100	100	100	100
Maintenance and Repairs	308	308	308	308	308
Event Services Costs	215	239	264	296	321
Food and Beverage Expense	1,205	1,253	1,318	1,414	1,479
Utilities	211	211	211	211	211
Insurance	88	88	88	88	88
Other	248	259	270	284	292
Total Operating Expenses	$3,532	$3,696	$3,857	$4,053	$4,157
Net Operating Income (Deficit)	($463)	$(328)	($250)	($115)	$12
Management Fees	260	272	280	292	300
Maintenance Reserves	320	320	320	320	320
NOI After Management Fees	($1,043)	($920)	($850)	($727)	($608)

Source: Johnson Consulting

The pro forma operating statement above shows the conference center approximately breaking even in the fifth year, before management fee and maintenance reserves. After the management fees and the reserves necessary to maintain the facility on a long-term basis are included, the center is projected to require an on-going subsidy of approximately $608,000 per year. In the first five years of operation, the conference center is projected to require a total operating subsidy of $4,148,000.

The addition of a performing arts center to the complex would not be expected to enhance the overall operating results. While it would be an amenity for the community and a welcome enhancement for some conference center functions, the performing arts center would do well to be able to earn sufficient revenues to cover its costs of operation.

As discussed earlier in this report, as demand continues to grow for the facility, it would be able to select more profitable events (and utilization could increase slightly) and therefore, the operating shortfall should decline in subsequent years. However, for planning purposes, it is prudent to structure the project with a $608,000 annual subsidy.

CONSTRUCTION COSTS

The conference center facility recommended in the Johnson Study was estimated to cost $53.2 million to construct and incur a total project cost of $72.6 million. We have developed an estimate of the construction cost for a 1,200-seat 16,000-square foot performing arts center of approximately $1,535,000, with a total project cost of $2,015,000.

	Estimated Conference Center Project Costs	Estimated Performing Arts Center Costs
Construction cost	$53,169,600	$1,535,000
Design & Other Fees	7,975,440	230,000
Furnishings & Equipment	5,316,960	250,000
Contingencies	6,114,504	Included
Total Project Cost	$72,576,504	$2,015,000

With the addition of the performing arts center to the proposed conference center, the combined project costs are estimated to be $74.6 million.

OWNERSHIP ISSUES

The projections for the conference center show that it will not be capable of generating any cash flow for payment of either debt service or a return on any equity invested in the project. Therefore, the project will have to be funded from public sources, rather than from the private sector. This fact raises important issues with respect to the ownership and management of the conference center.

Public vs. Private Ownership Issues

Public ownership of the conference center would present an on-going liability to the City for both operation shortfalls and general business risks. However, public ownership would allow the City to maintain control over the center's operations, booking policies and maintenance. The City could then ensure that the center was properly staffed to provide excellent service, that dates were made available for community events and that the building and its systems were properly maintained and replaced when necessary on a timely basis.

Much of this control may be given up if the center is owned by a private entity. The desire for profitable operations may conflict at times with the community good, and if the center is poorly managed, it could reflect poorly on the community and it would be difficult for the City to effect an improvement.

While it is the City's preference to have a private entity own and operate the conference center, there are several factors that will likely prevent private ownership.

- Private ownership may eliminate tax-exempt or other public financing options that are available to the City.

- Private ownership would cause the project to be subject to real estate taxes, which would increase the amount of annual subsidy required by the center. At present assessment rates, the $67.2 million project (less furniture and equipment) would pay approximately $1.5 million annually in real estate taxes, plus taxes on the land value assigned to the parcel.

While it appears that the City will have to own the conference center, there are some ways in which it can limit its risk. A joint venture partnership with a private entity that has both an investment in the project and a vested interest in its successful operations could produce effective results. Leasing the center to the private entity could strengthen this relationship further. These concepts are described below.

Joint Venture Partnership

It is possible that a joint venture with a private hotel company could be negotiated to construct and operate the conference center. It is likely that a hotel company would be willing to purchase a site and contribute some funds toward the construction of the conference center in exchange for the opportunity to build a hotel near the center and perhaps obtain a long term contract to manage the facility.

A private joint venture partner would seek the following key objectives:

- To maintain control of the operations of the facility;
- To obtain a reasonable return on the private funds and time invested in the project; and
- To minimize financial risk.

Since the City already owns a large parcel of land, it could sell a hotel site and apply the proceeds to the conference center project. Applying general rules of thumb for hotel development, a 250-room hotel could afford to pay approximately $2.5 million for a good site (based on $10,000 per room).

Rather than building a large amount of public meeting space within the hotel, the developer could contribute those funds towards the cost of the convention center. For example, the cost to construct and furnish 10,000 square feet of meeting and banquet space is roughly $2.5 million.

If the hotel owner was sure that his hotel would receive a considerable amount of the lodging business generated by the conference center (at least as much of the business that the hotel could generate from internal space on its own), he could justify this investment through the profits gained on the additional rooms business.

In an attempt to minimize business risk, the hotel owner may very well want to manage the conference center to insure that it will be professionally managed and oriented towards groups that require hotel accommodations. The length of this contract would likely coincide with the term of the mortgage on the hotel, probably a minimum of 10 years.

If the hotel owner manages the conference center and does not want to contribute funds to the construction of the center, the opportunity exists for the city to negotiate a less than market rate management fee with the hotel owner in lieu of an upfront investment in the center. This would meet the City's objective of reducing the amount of annual subsidy required for the center, but would increase the amount of public construction funds needed.

The new hotel, or the expanded Marriott will be integral to the success of the conference center in that it will function as the headquarters hotel for events held at the center. Accordingly, it will be important that the City, as part of a development agreement, insures that the hotel will hold a certain block of rooms for center events, and that it will provide them at market rates.

Long Term Lease

The opportunity to reduce the amount of the operating subsidy required by the center exists through the leasing of the hotel site and/or the conference center facilities. Instead of selling the hotel site outright and using the proceeds to reduce the public cost of the center, the city may be able to negotiate a long term lease of the site, and use the annual payments to offset any operating subsidy.

The City could further reduce its economic and liability risk by leasing the facility to a private entity. In a landlord/tenant relationship, the tenant would take on the responsibility for operating deficits along with casualty and other legal risks. The two most likely candidates for a lessee would be the owner of the newly constructed hotel or the owner of the adjacent Marriott hotel. Both would benefit directly from activities at the center. The existing Marriott already has management, marketing, food and beverage, and maintenance personnel on site that could be called upon or leveraged to assist in the operations at the center, which should allow it to operate the center very profitably.

The hotel would view the center's operating subsidy as an expense it may be willing to incur in exchange for a large portion of the center's lodging business. In the Johnson projections for the stabilized year of operations, the hotel would receive $300,000 in fees for managing the center and have to pay out $604,000 to cover the center's expense shortfall. For example, if the center were leased to the hotel for a nominal amount, the expected subsidy would be viewed as the true lease cost. At an assumed average room rate of $100 and an 80% rooms departmental profit at the hotel, an additional 21 rooms sold each night would generate enough profit to pay the center's subsidy.

MANAGEMENT ISSUES

There are several key management issues that need to be evaluated along with the ownership issues, in order to arrive at a structure that will best meet the City's objectives. Three of the most important issues are discussed below.

Booking Priorities

All large assembly facilities experience booking conflicts that have serious repercussions for both profitability and general community impact. Conferences and conventions that draw people from outside the community for a period of several days have the largest impact on the community, as these attendees purchase hotel rooms, meals, entertainment, etc., and are frequently accompanied by a spouse or companion. However, consumer shows are generally more profitable for the center, since they can pay higher rents and may require less set-up/tear-down labor during the function. Booking a one-day local charitable event during a high demand period may preclude a three-day conference.

The above are examples of conflicting objectives that the conference center will face on a daily basis. In order to achieve maximum satisfaction within all sectors of the community, policies to deal with these issues should be developed and supervised on an on-going basis by a committee or board that is made up of city, community and hotel representatives. Such a board should be in place with effective authority, regardless of whether the center is managed by a public or private entity.

Operational Efficiencies

Most assembly facilities are staffed with a small core of full time personnel, who are supported by a large cadre of part time employees that can be called to work as necessary. Even some of the full time positions may not be fully justified by the size and number of activities at the center. For instance, there may be staff positions within the kitchen, maintenance and administrative departments where the required staff cannot be fully utilized. Similarly, food can spoil and efficient menu planning is difficult if the facility's kitchen is not utilized every day. These factors lead to inefficiencies that can increase the operating cost of an independently managed center.

Large area hotels have most of the same types of qualified people on staff supervising their day-to-day operations. If an area hotel was to manage the center, the opportunity for more efficient use of personnel is created. Both the hotel and the center can benefit from better utilization of key management personnel and staff, and from the ability to attract and pay better qualified people than either business could afford on its own. Similarly, the hotel's banquet and maintenance staff provides a pool of trained workers upon which the center can call during periods of peak activity. These efficiencies can lead to lower operating costs if an area hotel manages the center.

Management Expertise

It is absolutely crucial to the financial success of the center that it be managed by an entity staffed with people highly experienced in operating a facility of this type. Marketing people that are experienced in effectively reaching state and regional groups are needed to build and maintain business. Also needed are operational people experienced in training food service people, and management personnel that can efficiently operate a facility that may have several thousand attendees in one day and have no activity the next.

TRAFFIC ISSUES

The amount of traffic that would be generated by the conference center and ancillary developments is of concern to the community. Traffic would tend to peak at the beginning and conclusion of a large meeting or banquet function, when all attendees would be arriving and departing within a short period of time. The potential for greatest congestion exists when a function is either beginning or concluding during the afternoon rush hour period. Arrival and departure activity for conventions and conferences would usually be spread out over a longer period, resulting in lower peaks of traffic. A popular consumer show would generate steady traffic throughout the day, however the scheduling of these events on weekends, when commuting traffic is at a minimum level, will tend to mitigate area congestion.

At the City's direction, the firm of Hubbell, Roth & Clark, Inc. (HRC) was asked to study the impact of the proposed developments on area traffic. They evaluated the traffic impact expected to result if a 75,000-square foot conference center, a hotel, a 2,500-seat performing arts center and 150 housing units were developed in the immediate area of the subject site. They concluded that the performing arts center would create the largest amount of daily traffic and that these four developments would generate a total of 3,229 daily trips. Afternoon peak traffic was estimated to total an average of an additional 308 cars. The study concludes that the proposed developments will have "very little" impact on peak traffic in the area.

HRC recommended that a second major access be developed between the Marriott Hotel and Liberty Center to provide a second major access to the site, and that the median on Big Beaver Road be modified to provide for turning lanes and crossovers to improve traffic flow into and out of the site. These improvements were estimated to cost approximately $460,000.

HRC was asked to particularly analyze the impact which the proposed developments would have on afternoon Peak Hour traffic operations at the intersection of Big Beaver Road and Livernois. When the projected traffic from the development was added to expected future levels of traffic, the eastbound approach to the site was the only route that suffered a slightly lowered level of service, and this was not significant enough to change the overall Level of Service at this intersection.

We have revised these estimates to reflect a larger 120,000-square foot conference center, a smaller 1,200-seat performing arts center and a larger housing development (245 units). By adjusting the previous estimates proportionately with the changes in capacity of the three developments, we arrived at an estimate of 3,480 additional daily trips on average, or an increase of nearly 8% over the study's earlier findings. Our revised estimate of average afternoon peak hour cars was 380, or an increase of 23% over the previous estimate of 308. Since residential development creates a relatively larger amount of both daily trips and peak afternoon trips, a smaller housing development than the 245 units we modeled would significantly reduce the amount of new traffic in the area.

The traffic increases projected by HRC were found to have little impact on the area's traffic congestion. The adjusted results that reflect the recommended facilities and a larger housing project result in only an 8% increase in the number of daily trips. With respect to afternoon peak hour traffic, the original study estimated an increase from the existing condition of 553 cars to 861 cars; our revision would increase this number to 933 cars. Since the original increase of 56% in afternoon peak hour traffic were judged to have very little impact on area traffic, we assume that our revisions, which result in a 69% increase in peak period traffic, would similarly have little impact.

SUMMARY

Communities have recognized the huge economic impact they receive from the expenditures of patrons attracted by convention and exhibition facilities. Therefore they are willing to fund the construction of these facilities and, in many cases, subsidize their annual operations. The City of Troy realizes that it will have to fund the construction of the proposed conference center, but it does not want to be responsible for operating shortfalls that may occur at the facility.

Financial projections prepared by Johnson Consulting indicate the need for a total of $4,148,000 in operating subsidy for the center over its first five years of operation, with a continuing subsidy of approximately $600,000 expected. The city has an opportunity to reduce the public cost of the project and/or reduce the required operating subsidy through negotiations with an adjacent hotel(s). The city has the opportunity to obtain capital for the project by selling a hotel site and/or by possibly attaching a capital investment requirement to negotiations of the conference center management contract. Alternatively, the city may be able to reduce the amount of operating subsidy by leasing a hotel site and/or the conference center facilities to a private entity. Maximum operating efficiencies could be realized if the adjacent Marriott or another proximate large hotel were to manage the center, possibly allowing the city to negotiate a lower management fee.

IX. ECONOMIC AND FISCAL IMPACT ANALYSIS

Public assembly facilities are constructed so that communities can reap the benefit from the purchasing power that patrons bring into a community and also the jobs that are generated by both the facility operations as well as the additional commerce associated with patron expenditures. Johnson Consulting prepared, through the use of an economic impact model, estimates of both the economic and the fiscal impacts which the proposed conference center project would have on the area. This analysis and its conclusions are summarized below.

ECONOMIC AND FISCAL IMPACT

The factor having the greatest influence over the amount of economic impact generated by an assembly facility is the amount of participant spending it will generate. The purchase of goods and services by attendees are described as *direct* impacts. To the extent that these goods and services are obtained or provided within the local community, *indirect* impacts are created. Jobs are created in hotels, restaurants and stores that the attendees frequent, as well as within the assembly facility itself. The wages earned by these employees provide additional purchasing power that becomes available to the community, which generates *induced* impact.

Similarly, the wages paid during construction creates purchasing power, as does the labor involved in making the construction materials used in building the assembly facility. The sales taxes collected on the attendee and the employee spending creates fiscal impact, as do the payroll taxes paid on these wages. These are the various inputs for the impact model.

Attendee Spending

Different types of groups have different spending patterns. For example, a regional convention where delegates must purchase lodging accommodations and restaurant services for several days will spend more in the local community than will a visitor to a consumer show who may spend six hours in the community before returning home. Therefore, the type of groups attracted by an assembly facility has a large impact on the magnitude of the economic benefit it will generate.

Direct spending estimates were developed by Johnson Consulting by estimating the percentage of patrons expected to originate from both outside the Detroit Metro area and from outside the state of Michigan for each type of event projected for the conference center. Appropriate spending data for each type of delegate and origin were then applied to arrive at potential direct expenditures. Delegate expenditure data was developed from primary research performed by the International Association of Convention and Visitors Bureaus in 1993 and 1998, adjusted to the Detroit area market prices and inflated to 2001 dollars. The per diem expenditures, summarized below, were split into the following categories: hotel, entertainment, retail, local transportation, restaurant and other.

Per Diem Expenditures

Type of Event	National	State and Local
Conventions	$261.65	$212.97
Trade & Consumer Shows	$97.26	$49.36
Associations	$19.44	$24.11

Source: Johnson Consulting

The Metro Detroit Convention Bureau estimates that the average convention delegate spends $574 per visit and the typical state association delegate spends $490 per visit. These coincide with the above data for average stays of slightly more than two days.

Economic Impact

The Johnson study concluded that the conference center, at a stabilized level of operation, would generate a total of $92.3 million in total impact from delegate and employee spending within the Metropolitan Detroit Area. Approximately $59.1 million would be in direct spending and $13.9 million and $19.3 million in indirect and induced spending, respectively. Another $68.1 million of impact would be generated outside the metropolitan area.

The center is also estimated to employee 24 full time equivalent positions, and spending associated with delegates and the center's operations are projected to support another 1,585 jobs in the Metropolitan Detroit area and 1,262 more jobs in the state.

Fiscal Impacts

The study calculated the likely amount of tax revenue this economic activity would generate from sales, income, hotel occupancy, property and auto rental taxes, as well as airport fees. These sources were estimated to generate nearly $5.4 million annually for the state and the municipalities in the Metropolitan Detroit Area.

Construction Impacts

The study concluded that the construction of the proposed conference center, at an estimated cost of $72.6 million, will generate a total of $104.7 million in spending in the state, of which $87.1 will occur in the Metropolitan Detroit Area and create the full–time equivalent of 973 jobs in the state of which 761 jobs would be in the metropolitan area.

SUMMARY OF THE PROJECT ECONOMICS

Economic Impact and Benefits

The conference center as proposed is estimated to cost approximately $72.6 million to construct. Its on-going operations are estimated to create 24 jobs and the spending by delegates and the center's operations is projected to support 2,847 jobs throughout the state. The total recurring economic impact from the center is projected to be in excess of $160 million. These numbers are in addition to the number of one-time jobs and considerable economic impact created by the construction activity itself.

The performing arts theater would create some additional one-time economic impact resulting from its approximate $2.0 million construction cost. The economic impact that would result from its on-going operations would be minimal, because it would not operate with a large staff and its consumption of goods and services would be limited as well. Most significantly, since the theater's patronage would be primarily of local origin, their expenditures would represent a reallocation of local entertainment funds, rather than an injection of new spending into the community.

The more intangible benefits of the proposed project are enormous.

- On an area-wide basis, this well-conceived assembly facility will draw people to the metropolitan Detroit area that otherwise may have avoided it on the basis of previous negative perceptions. Once in town, the delegates will have an opportunity to discover all the area has to offer, giving downtown Detroit an opportunity to regain its market share of regional and national convention business.

- Area employers, community groups and residents will have an impressive facility where they can host business functions, charitable and social events within their own community.

- Activities held at the conference center, and at the performing arts center if constructed, will provide new entertainment and education alternatives for area residents that have previously been unavailable in the community.

- Activities at the center will expose large numbers of people to the Troy community; some of whom may chose to move into the community and/or seek employment here.

Community Investment

In order to reap the economic impact that the project will generate, and to experience the intangible benefits it will produce, the community will have to make a significant investment in the project.

Like most large assembly facilities, the proposed facility is not expected to be able to generate enough revenue to pay both its operating expenses and the debt service costs incurred by its construction funding. In fact, the center is projected to incur operating losses in each of its first five years of operations, and is projected to operate at an annual deficit of $604,000 when stabilized. Based on the financial performance of performing arts centers in other communities, the proposed venue is not likely to be able to contribute any positive cash flow towards reducing the conference center's deficit.

Therefore, the Troy community is challenged to find funds with which to construct both the conference center and the performing arts center.

The conference center will benefit from more hotel rooms developed adjacent to or attached to it. It is highly likely that the center will stimulate the private development of a hotel to either serve as a new headquarters hotel, or to supplement the rooms and public space available at the Marriott hotel, which may itself add a tower of rooms. Both of these hotels would bring increased property tax revenue to the city, which has been included in the fiscal impact calculated in the Johnson Study.

As discussed previously in the Economic Feasibility Analysis section of this report, the new hotel development offers the greatest opportunity for the city to obtain some level of private investment in the conference center. As an example, the city could sell a parcel of the subject land to the new hotel for its site and dedicate the proceeds to the center. Either the new hotel or the Marriott may be willing to contribute some funds to the center as a requirement of obtaining a contract to manage the facility. Alternatively, a hotel site could be leased by the city with the proceeds going to the center. A hotel may be willing to lease the center, thereby providing annual payments by which the operating subsidy can be reduced, or perhaps even assuming total responsibility for the center's operating expenses.

SUMMARY

Public assembly facilities are constructed so that communities can reap the benefit from the purchasing power that patrons bring into a community and also the jobs that are created by both the facility operations and the commerce associated with patron expenditures. The conference center as proposed is estimated to cost approximately $72.6 million to construct. Its on-going operations are estimated to create 24 jobs and the spending by delegates and the center's operations is projected to support 2,847 jobs throughout the state. The total recurring economic impact from the center is projected to be in excess of $160 million. These numbers are in addition to the number of one-time jobs and considerable economic impact created by the construction activity itself. State and local tax revenue collected as a result of the project are estimated to be nearly $5.4 million annually.

In addition to economic benefits, the project will create some enormous intangible benefits. The center will draw people to the Metropolitan Detroit area, providing an opportunity for the re-discovery of the community's many positive attributes; it will provide an impressive facility for use by area employers, community groups and residents; it will provide opportunities for new education and entertainment experiences; and it will expose Troy to a large number of people.

ADDENDUM

ASSUMPTIONS AND LIMITING CONDITIONS

ASSUMPTIONS AND LIMITING CONDITIONS

In accordance with our engagement letter, the legal and regulatory requirements applicable to this project, including zoning, other state and local government regulations, permits and licenses were not ascertained. No effort was made to determine state or local legislation, including any environmental or ecological matters, nor were the potential impact of possible energy shortages quantified.

This study is based upon information developed from research of the market, knowledge of the industry and meetings with our clients during which they provided us certain information. Hospitality Advisors has no responsibility to update this report for events and circumstances occurring after the date of this report.

The report is based on estimates and assumptions developed through our research of the market. However, some assumptions will inevitably not materialize, and unanticipated events and circumstances may occur; therefore, actual results may vary from those presented, and the variations may be material.

Further, Hospitality Advisors has not been engaged to evaluate the effectiveness of management, and are not responsible for future marketing efforts and other management actions upon which actual results will depend. This report was prepared for the information of the City of Troy, Michigan, for use in determining feasibility for the proposed project(s). Otherwise, neither the report nor its contents may be included or quoted in any offering circular or registration statement, prospectus, sales brochure, loan, appraisal or any other agreement or document without the prior written permission of Hospitality Advisors. They should not be relied on for any other purpose. It is agreed that Hospitality Advisors' liability is limited to the amount of the fees paid as liquidated damages.

MARKET INTERVIEW/SURVEY RESPONDENTS

MARKET INTERVIEWS/SURVEY RESPONDENTS

- Bonnie V'Oskie, **Michigan State Medical Society**
- Dennis Hamilton, **Spartan Travel**
- Cheryl Roak, Executive Director, **Michigan Society of Association Executives**
- **Metro Detroit Convention & Visitors Bureau**

  Janice Schmees, Director of Sales

  Bill Connellan, Senior Vice President

  Brad Van Dommelen
- Sharon Carreyn, Meeting Planner, **Society of Automotive Engineers**
- Polly Ross, Administrator, **Michigan Library Association**
- Rossana Martin, Director of Group Meetings, **Total Travel Management**

  Clients: **General Motors, Delphi, K-Mart, and Fleming Foods**
- Suzzane Zanoli, Manager of Events, **Kelly Services**
- Jill Skutar, Director of Events, **Michigan Trucking Association**
- Jennifer McGiveron, Senior Planner, **Volkswagen of America**
- Bernie Droste, Manager of Conferences, **Michigan Dental Association**
- Lucinda Merindorf, **Michigan Township Association**
- Sandy West, Convention Planner, **Michigan Funeral Directors**
- Franz Newburg, **Michigan Pharmacists Association**
- Max Hoag, Vice President, **Carlson Marketing – Troy, MI**
- Sue Bila, Executive Director, **Michigan Festivals and Events Association**
- Michelle Hodges, President, **Troy Chamber of Commerce**
- Alan Kiriluk, Chairman, **Kirco Corporation**

  Member of the **Troy Downtown Development Authority**
- Gary Chamberlain, **Troy Planning Commission**
- Stu Mayer, Vice President, **Palace Sports and Entertainment**
- Bill Kennis, **Troy Shareholders – Leadership Troy**
- Elaine Hoderick, Manager of Employee Research, **Delphi Corporation**